Building a better future

An assessment of the economic and social benefits of five-year housing regimes

Report

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Executive summary

Room for improvement with housing funding

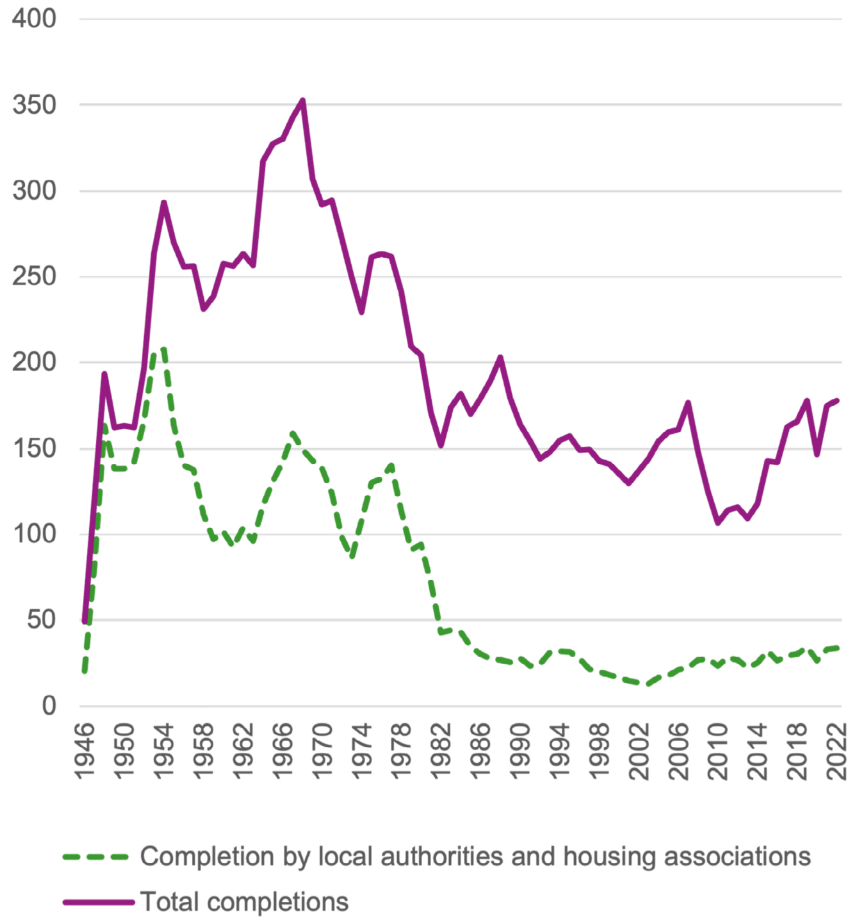
An alternative to the way social housing is funded is needed. One option is to supply local authorities with consistent, ring-fenced funding over longer periods of time.

Over the last 30 years, growth in the housing stock has stagnated. The number of housing completions is failing to keep up with demand. Around eight per cent of renters are living in overcrowded accommodation, over 1.1 million households are on local authority waiting lists, and there are 110,000 households in temporary accommodation in England. Conservative estimates suggest 272,000 people are currently homeless in England. Challenges are compounded by a fragmented housing landscape that distorts need and encourages competition.

The recent funding landscape for housing has largely been made up of the Housing Infrastructure Fund (which is now closed for new applications), the Brownfield, Infrastructure and Land Fund and the Affordable Homes Programme. The One Public Estate Programme provides funding to support cross public sector partnerships to work collaboratively on land and property initiatives.

The devolution of previously centralised power in policy areas such as housing under the recent Trailblazer deals for Greater Manchester and West Midlands Combined Authorities marks the first time the Affordable Homes Programme has been devolved outside of the Greater London Authority. Moving towards a system that allows local management of housing funding is a step in the right direction, though devolution is only part of the story. Greater consistency of funding is key.

Figure 1 - Number of permanent housing completions per year, England, thousands (Office for National Statistics)



Five-year regime will deliver more social homes

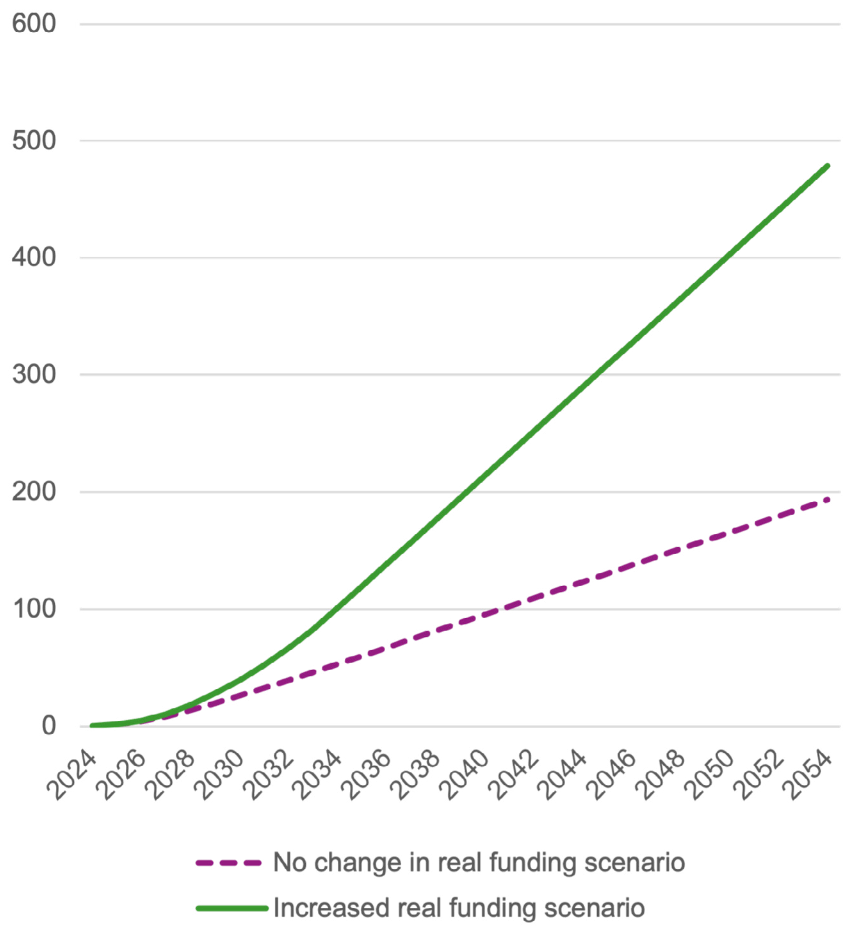
The certainty of a regime, where local authorities are given secure ringfenced funds for housing for sequential five-year periods, will lead to hundreds of thousands more homes for social rent being built.

By reducing volatility in construction and its supply chain, resource can be better utilised across years with shorter lead times, speedier delivery of projects and reduced risk. Analysis of historical social housing build rates versus long-term trends indicates the potential for eleven per cent more homes to have been built if the peaks and troughs in activity were evened out. Five-year regimes can reduce the costs to local authorities, Homes England and central government of administering the current multiple, complex, short-term interventions; our interviews suggest savings roughly equivalent to the cost of building five per cent more social homes are possible. Over time, better resource utilisation will stimulate higher returns and wages, and greater innovation and investment. The scale of this impact is unclear but something in the order of five per cent would be a cautious estimate.

With the appropriate devolution of decision making, we estimate that the impact of five-year funding regimes could be equivalent to an additional 21 per cent on social housebuilding. There will be a transition period – as the new processes bed in, and industry and investors gain greater comfort that the regime is permanent, but benefits will be felt within the first parliament after implementation.

Under a scenario where there is no change in real terms funding, nearly 200,000 additional social homes are projected to be built over the span of 30 years with the introduction of a five-year funding regime. If the government were to take a more proactive approach to addressing the housing crisis, the impact of five-year housing regimes will be magnified. Over the course of 30 years, an increased funding scenario could result in almost 500,000 additional new homes for social rent being built. Both scenarios assume devolution of housing funding and decision making for those local areas who want it at the geographical level most appropriate to them.

Figure 2 - Impact of a five-year housing regime: Additional social homes built, England, cumulative thousands (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities and Office for National Statistics data)



Increase in real funding scenario: There is an increase in funding, equivalent to an additional ten per cent more homes for social rent per annum, up to a maximum of 90,000 homes per year.

No change in real funding scenario: Funding for social home building remains the same in real terms.

£31 billion benefit from five-year housing regime

The construction of additional homes for social rent through five-year housing regimes will have knock-on social and economic benefits.

There would be reduced government spending, with less need for emergency assistance, lower housing benefit payments and decreased expenditure on homelessness services. The construction of homes for social rent would yield higher tax revenues due to increased economic activity in the construction sector. And spending on temporary accommodation and homelessness support would decrease, resulting in long-term savings for local authorities.

Overall, a programme of consecutive five-year housing regimes could deliver a net boost over 30 years to public sector finances with a net present value of £3.3 billion in today's prices. By 2034, the annual benefit of the new regime would be worth half a billion pounds.

Five-year funding regimes promise significant socioeconomic benefits, too. This includes alleviating housing shortages, fostering community stability, and stimulating economic growth by creating jobs and boosting local spending. The construction sector's increased activity is projected to generate £2.5 billion in tax revenue over a 30-year period. Transitioning households to social rented homes reduces financial strain, inequality and homelessness while providing affordable, stable housing. This benefits tenants and society by relieving pressure on services and generating fiscal gains for the Exchequer.

A programme of consecutive five-year housing regimes is estimated to deliver net socioeconomic benefits worth £31 billion in today's prices over 30 years. If increased funding is made available for social housebuilding, the socioeconomic value would increase to £56.1 billion in today's prices.

Figure 3 - Overall annual socioeconomic benefits of five-year housing regime, no change in real funding scenario, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Cebr analysis. Note: Present values calculated over 30 years with 3½ per cent annual real discount rate.)

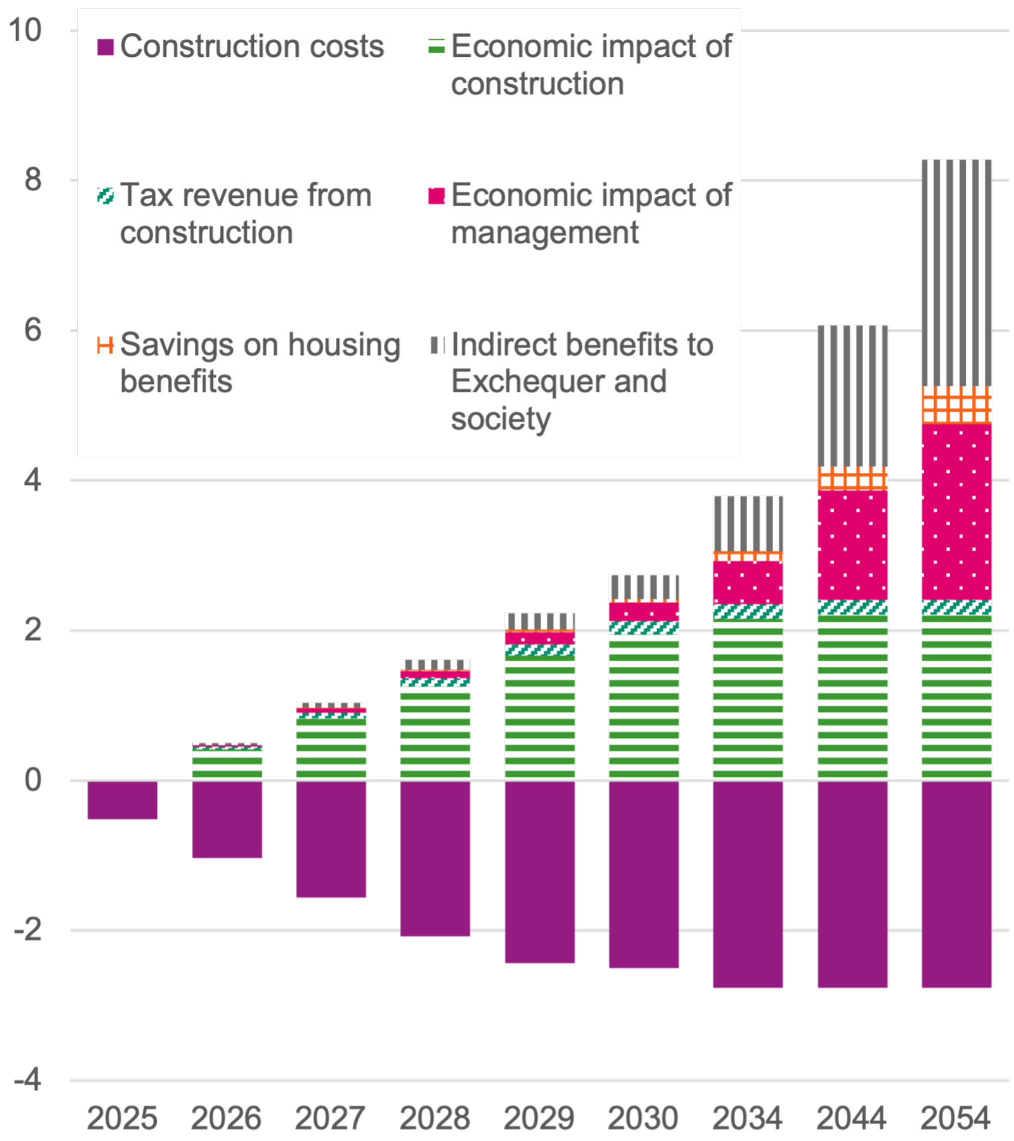
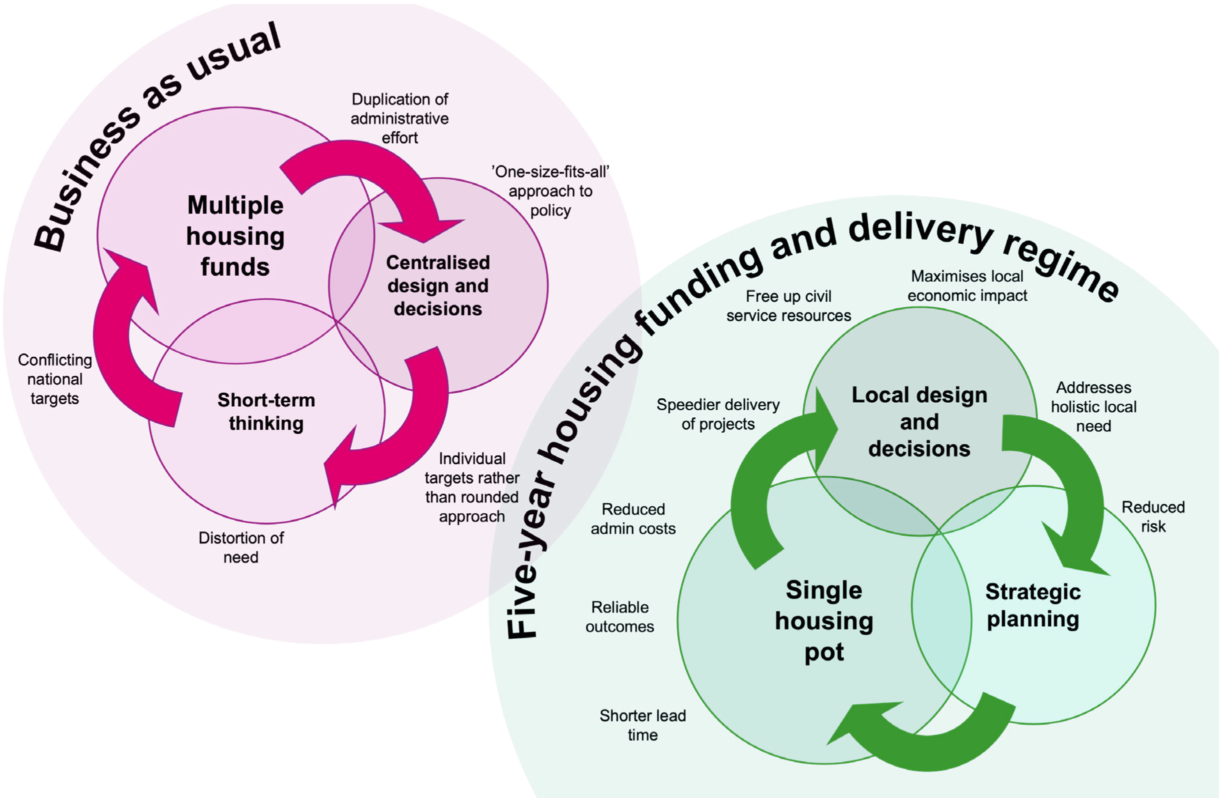


Figure 4 – Stylised graphic comparing five-year housing funding and delivery regimes to business as usual housing funding (Pragmatix Advisory).



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Cambridgeshire and Peterborough Combined Authority

Greater Manchester Combined Authority

Liverpool City Region Combined Authority

West Midlands Combined Authority

West of England Combined Authority

The need for social housing

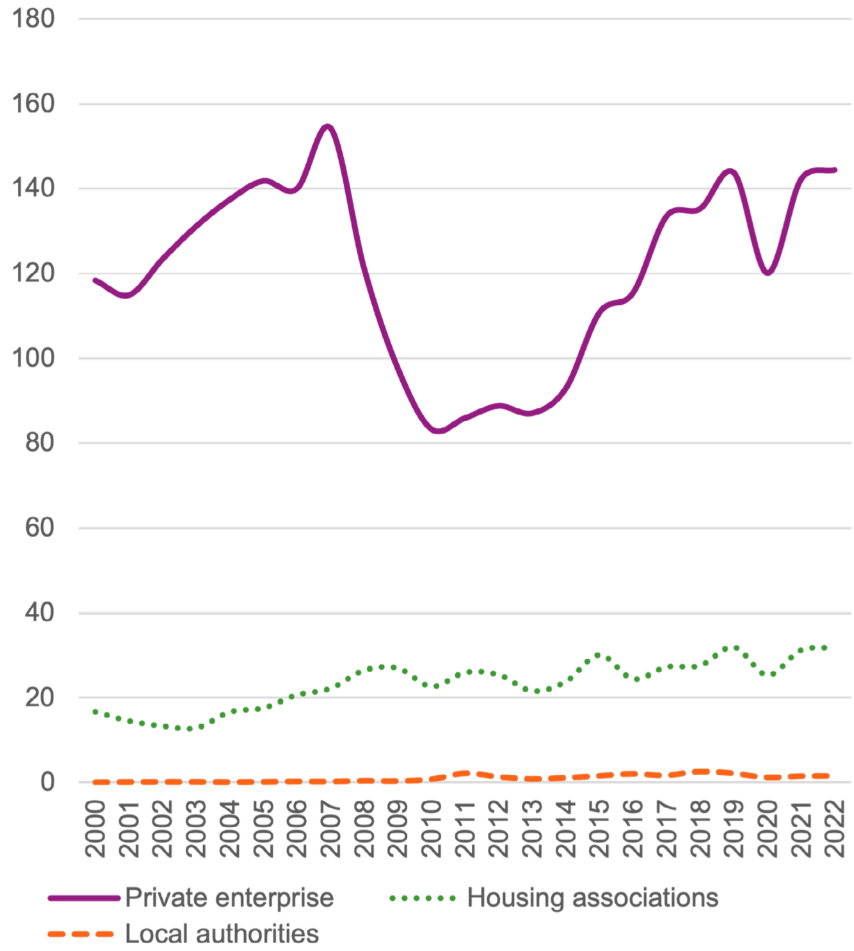
The social housing deficit is stark and is precipitating knock-on impacts for households in England. The housebuilding rate is severely behind demand, with a significant proportion of the existing stock overcrowded, non-decent or not energy efficient. Over one million households are on local authority waiting lists and over 100,000 families are living in temporary accommodation.

Housing supply is not meeting demand. A lack of housing options is having knock-on impacts for communities and local authorities across England. Insufficient housebuilding over several decades has led to lengthy local authority housing waiting lists, increased homelessness, increased numbers of households living in temporary accommodation and growing expenditure on housing costs by tenants.

Addressing the shortfall in available housing necessitates an approach that prioritises the construction of homes for social rent alongside other housing tenures. Increasing the availability of homes for social rent provides a lifeline for individuals and families struggling to access affordable housing in the private market.

Through the construction of more homes for social rent, local authorities can begin to mitigate some of the adverse effects of housing shortages, promoting greater social inclusion and fostering sustainable communities where more residents have access to safe, secure, greener, affordable housing options.

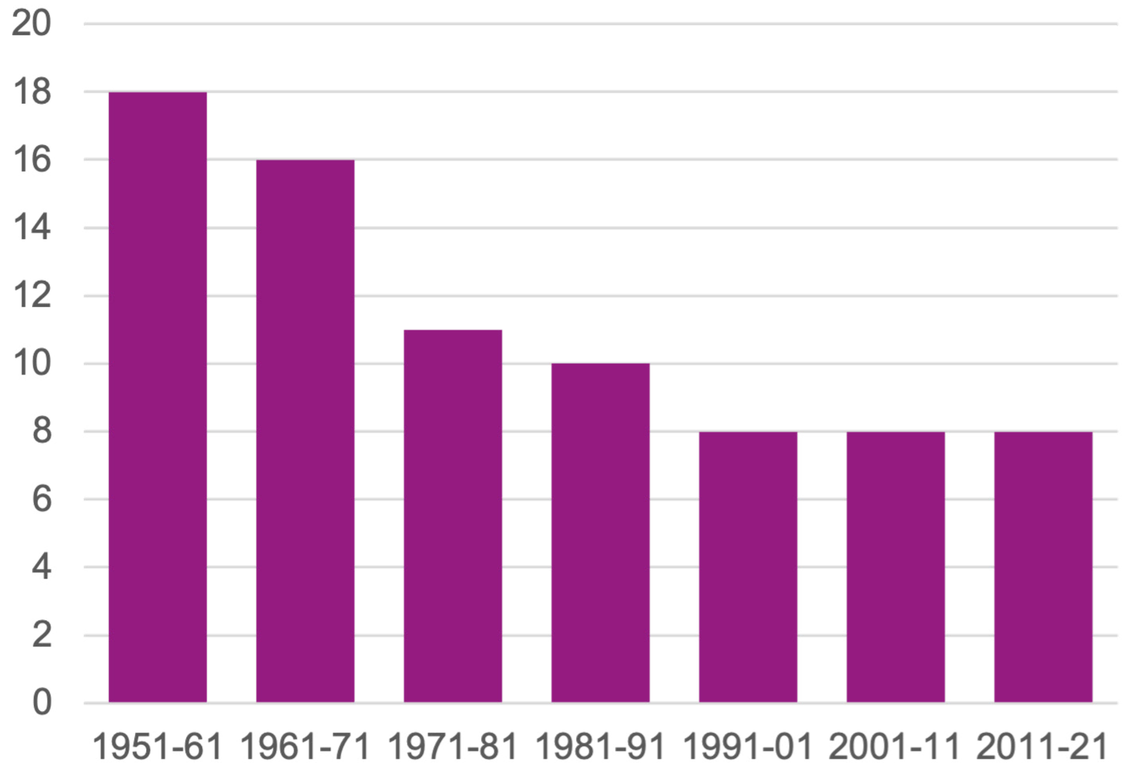
Figure 5 - Number of permanent housing completions per year, England, thousands (Office for National Statistics)



Growth in the housing stock is failing to keep up with demand. There were 234,000 net additional dwellings added to England's housing stock in 2022/23, with the overwhelming majority of new homes built being for private tenure. The difference between net additional dwellings and the growing demand for housing presents many challenges. Insufficient supply worsens affordability pressures, leading to rising rents and property prices, particularly in high-demand areas.

The shortage disproportionately impacts vulnerable populations, including low-income households and those in need of social housing who face increased difficulty securing affordable housing. The gap between supply and demand fuels housing insecurity, contributing to overcrowding, homelessness and poor living conditions for some households.

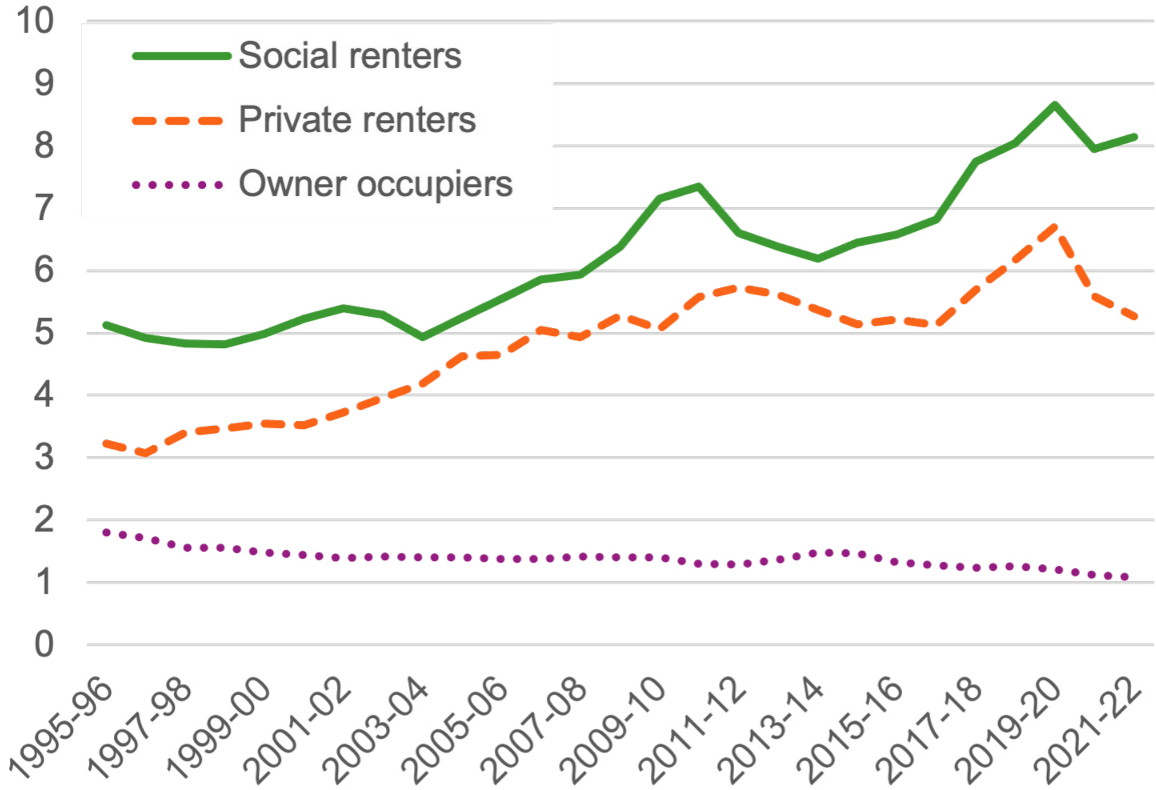
Figure 6 - Growth in housing stock, United Kingdom, per cent (Department for Levelling Up, Housing and Communities)



Around eight per cent of renters are living in overcrowded accommodation. London has the highest proportion of overcrowded homes in England, with seventeen per cent of renters living in overcrowded accommodation. Households living in owner-occupied accommodation are significantly less likely to be overcrowded.

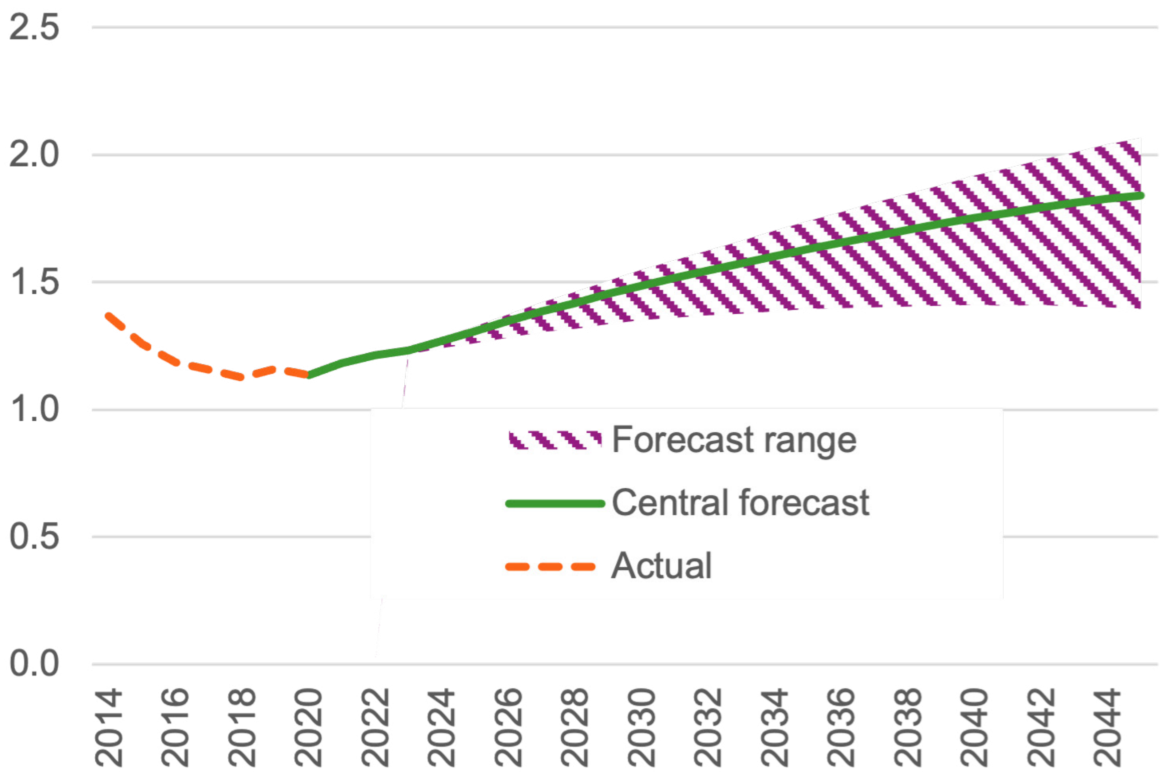
Households with dependent children are the most likely to be overcrowded, with one in five requiring additional bedrooms. One in three lone parent families are experiencing overcrowding.

Figure 7 - Overcrowding by tenure, England, per cent (Department for Levelling Up, Housing and Communities)



Over 1.1 million households are on local authority waiting lists. The reliance on developer contributions to deliver social housing is further impacting the social housing deficit. The demand for local authority housing, in particular, is expected to increase as the cost-of-living crisis continues to impact on households. Without intervention, the number of households on council waiting lists is expected to continue rising.

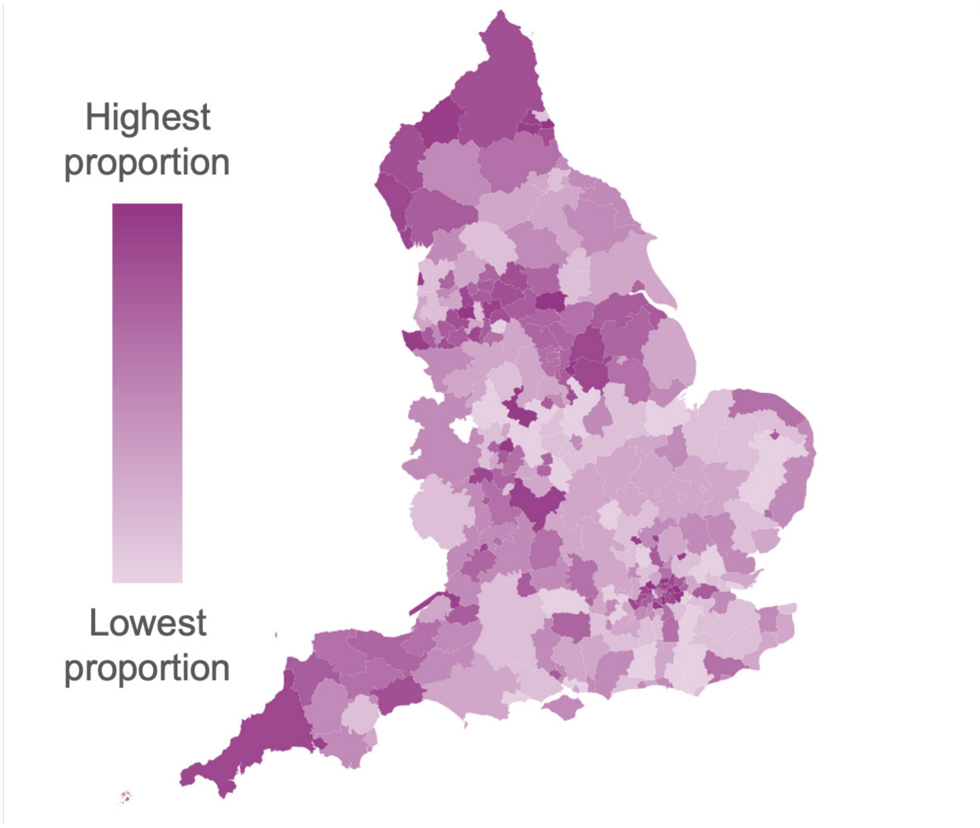
Figure 8 - Number of households on local authority housing waiting lists, England, millions (Pragmatix Advisory analysis of Department for Levelling Up, Housing and Communities for the National Housing Federation)



Inner London boroughs have the highest proportion of households on their waiting lists. In Newham, 30 per cent of households are on the local authority housing waitlist, six times higher than the national average of five per cent.
The increasing length of local authority housing waiting lists has far-reaching consequences, affecting individuals and families across a range of socio-economic backgrounds. Lengthy wait times for social housing exacerbate housing insecurity, leading to stress and financial strain for those in need of affordable accommodation.

Growing waiting lists increase the risk of homelessness and overcrowding, further straining services and council resources. In addition, prolonged periods of uncertainty can have detrimental effects on individuals' mental well-being and household stability.

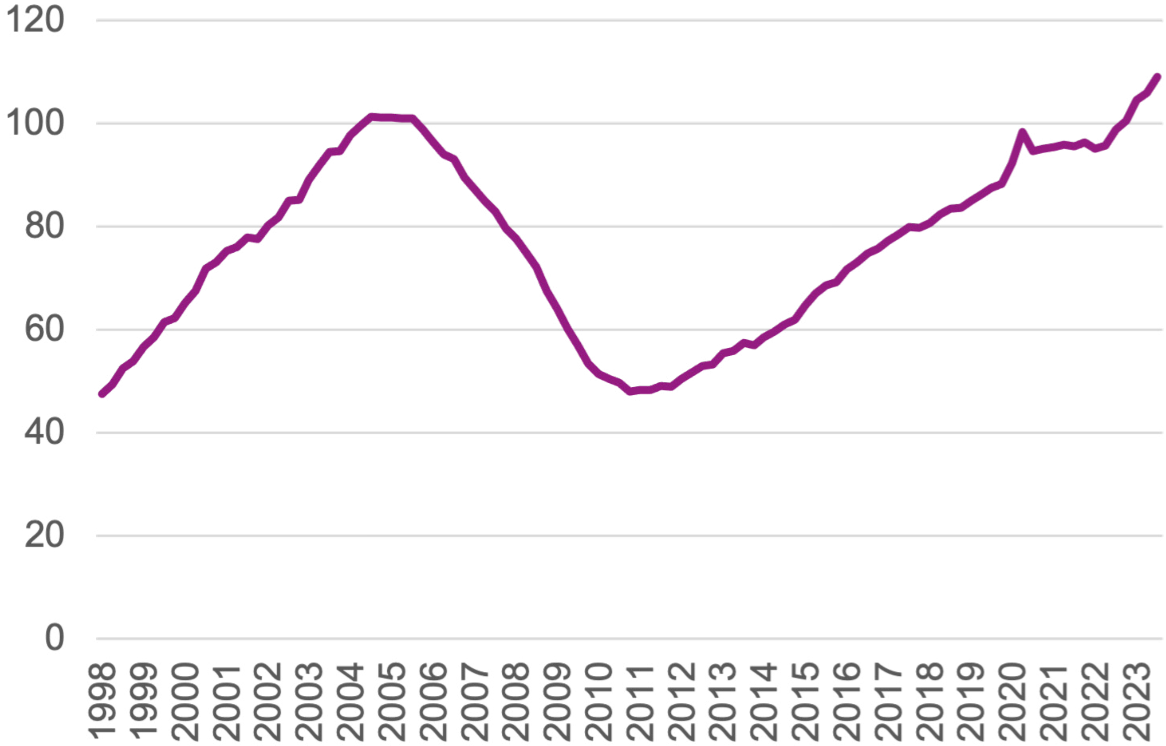
Figure 9 - Proportion of households on local authority housing waiting lists, England local authority districts, 2023 (Office for National Statistics)



There are 110,000 households in temporary accommodation in England. The total cost to local authorities of temporary accommodation between April 2022 and March 2023 was £1.74 billion, a rise of 62 per cent over five years. One in five households were housed in hotels, bed and breakfasts and hostels, costing £565 million.

More than 142,000 children are living in temporary accommodation in England. This can have an impact on children's well-being, stability and development. The uncertainty and transience of the living conditions can lead to emotional distress, disrupt schooling and prevent them from creating and maintaining friendships.

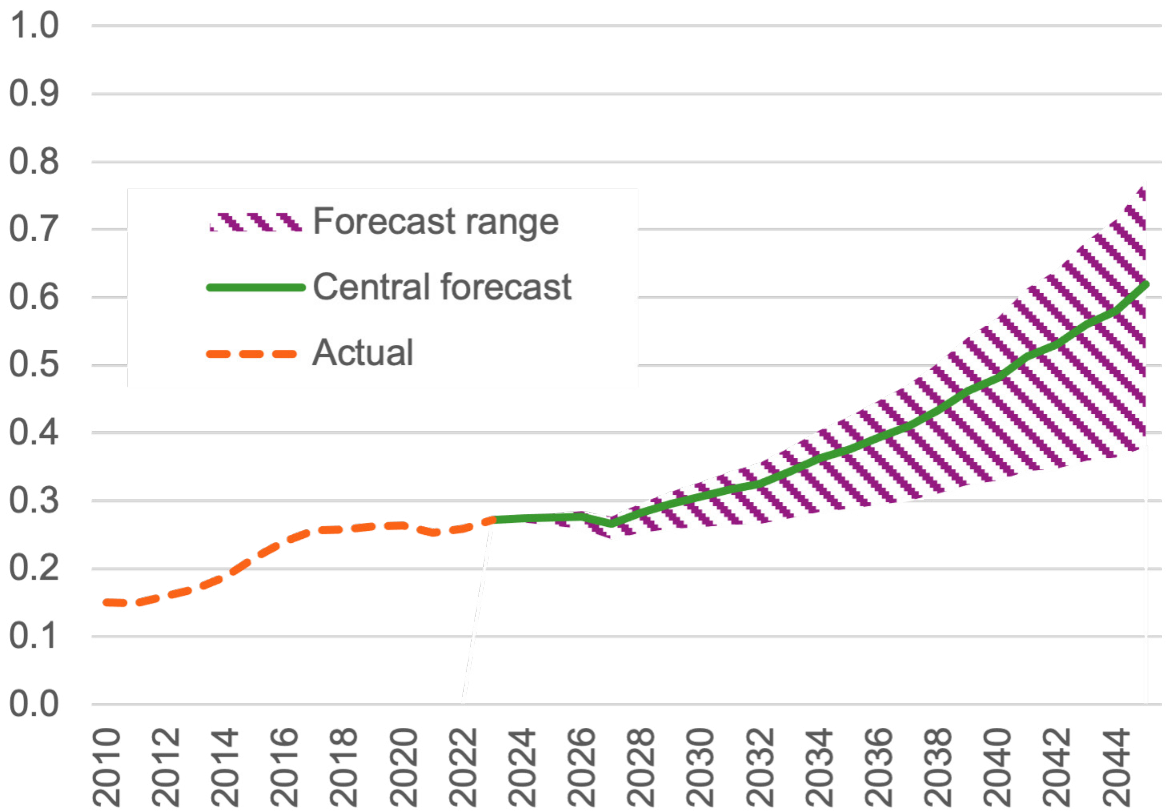
Figure 10 - Households in temporary accommodation, England, thousands (Department for Levelling Up, Housing and Communities)



Conservative estimates suggest 272,000 people are currently homeless in England. The number of people who are homeless in England has been rising steadily over the past decade, but real levels of homelessness are particularly hard to measure, and sofa surfing and hidden homelessness are not always evident in the official statistics.

Homelessness has significant impacts on individuals, families and communities, amplifying social inequalities and perpetuating cycles of disadvantage. Without secure housing, individuals are more likely to experience physical and mental health challenges, encounter difficulties in sustaining employment and face increased risk of exploitation and violence.

Figure 11 - Total number of people who are homeless, England, millions (Pragmatix Advisory analysis of Department for Levelling Up, Housing and Communities for the National Housing Federation)



A quarter of lowest-income households' spending is on housing costs. As housing expenses consume a greater proportion of budgets, households can be forced to make difficult trade-offs, compromising spending on other essential needs such as food and heating. The increased financial strain can contribute to financial instability and perpetuate cycles of poverty, particularly for low-income households who spend the greatest share on housing.

In addition, higher expenditure on rent can hinder households' ability to save for the future or get on the housing ladder, exacerbating wealth disparities. Homes for social rent are the most affordable option for households struggling with high housing costs, and building more homes for social rent would help alleviate some of those pressures.

Figure 12 - Average household weekly expenditure on housing, fuel and power as a share of total expenditure by income decile, United Kingdom, 2022, per cent (Office for National Statistics)

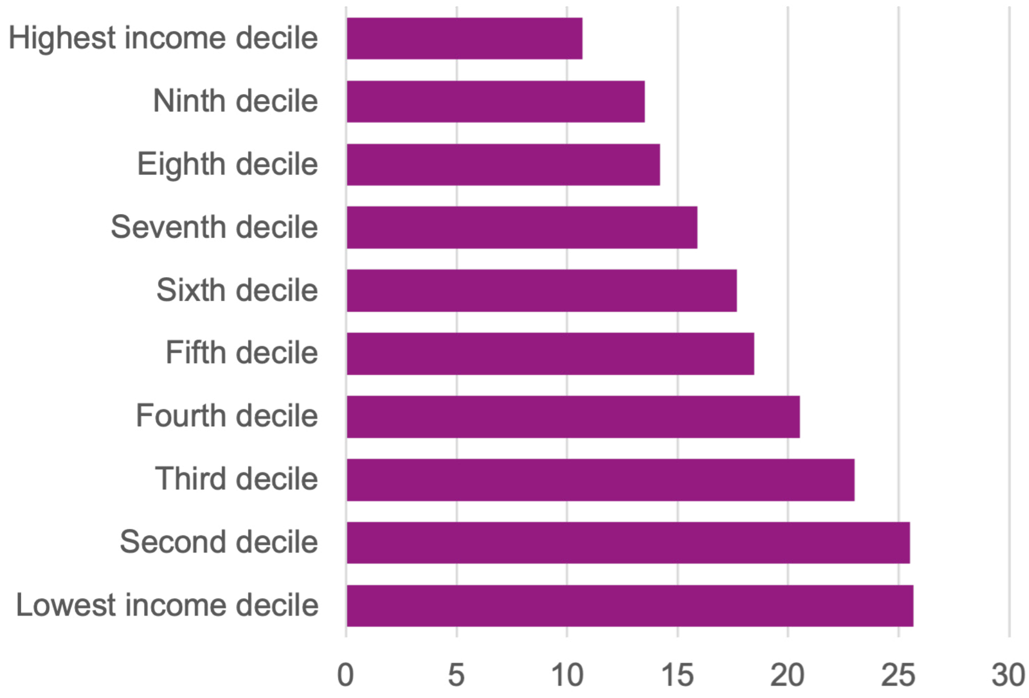


Figure 13 - Average household weekly expenditure on housing, fuel and power as a share of total expenditure (left axis, per cent) and index of spend (right axis), United Kingdom (Office for National Statistics)

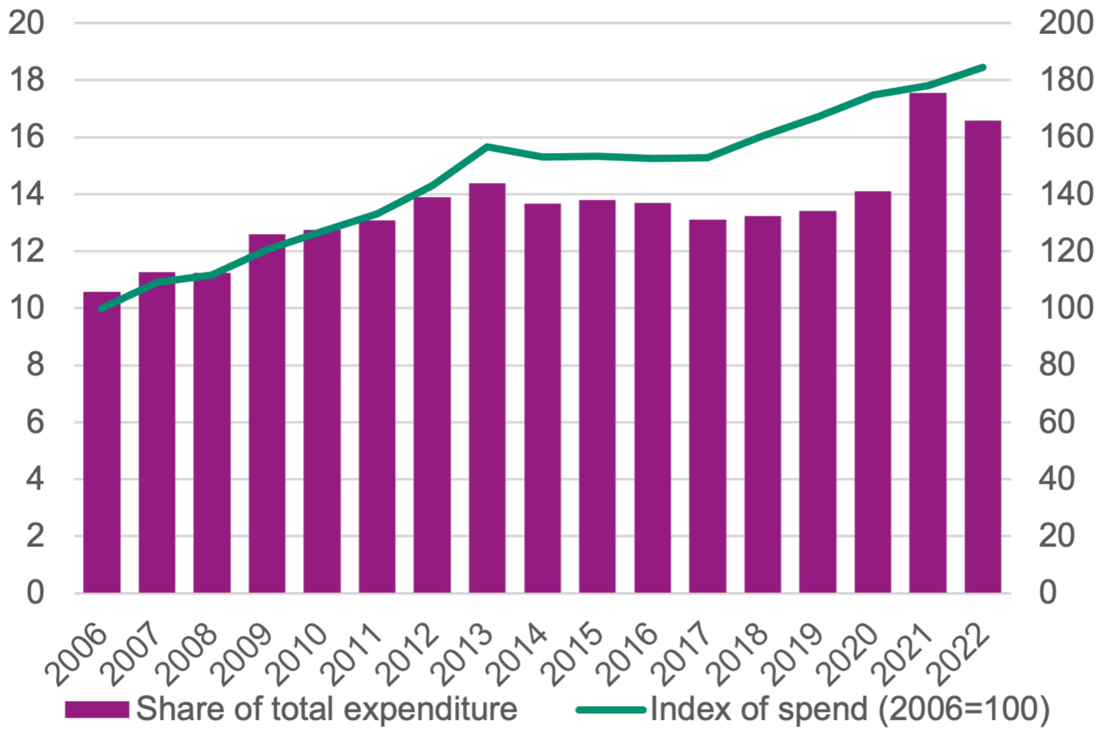
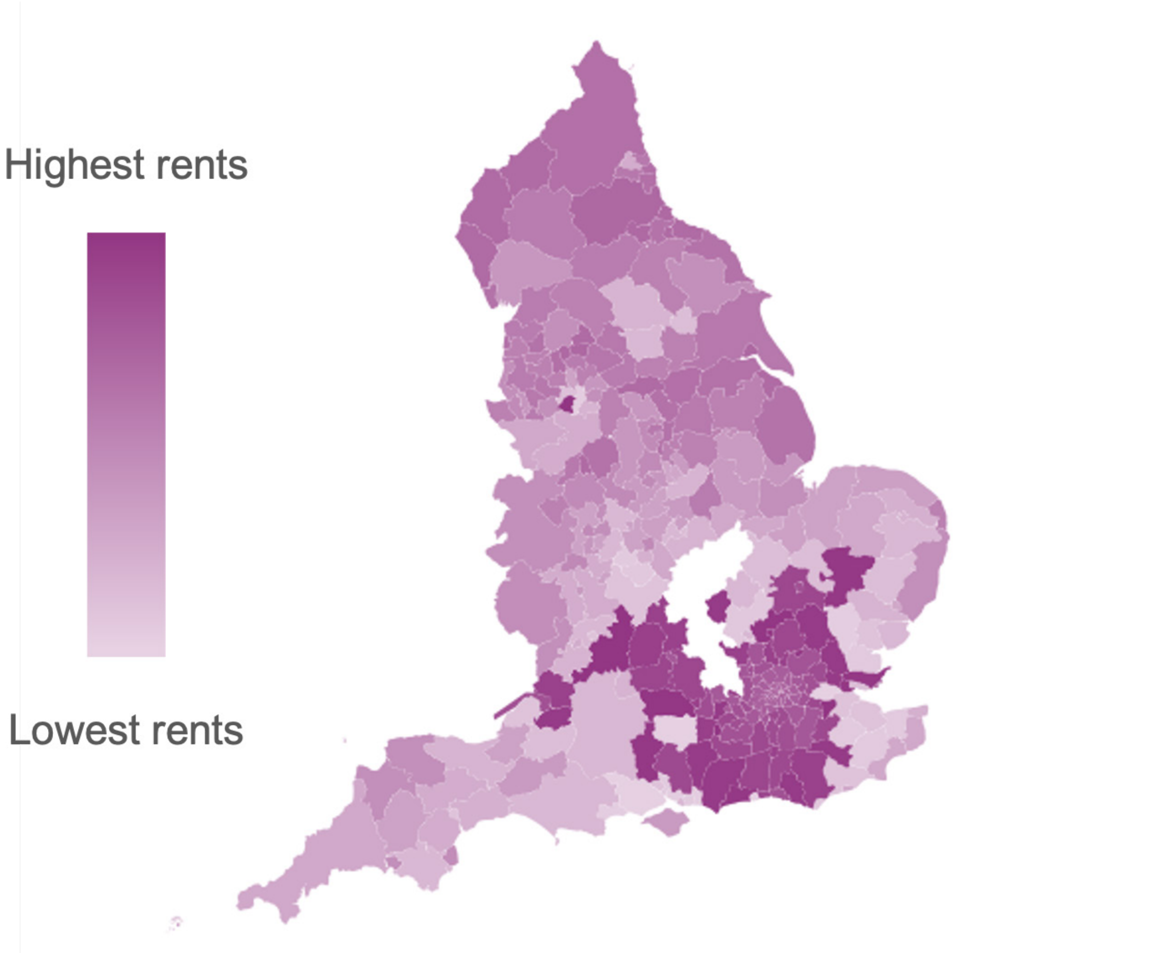


Figure 14 - Median monthly rents, England local authority districts, 2022-23 (Office for National Statistics)



The need to reform the funding of housing

The Housing Infrastructure Fund, the Brownfield, Infrastructure and Land Fund and the Affordable Homes Programme are the government's main vehicles to deliver housing by allocating funding to local authorities who bid for a share. It is a highly competitive system, one that distorts need and sees a duplication of administrative effort. Instead, a consolidated long-term pot of money could narrow the gap between house building need and house building reality.

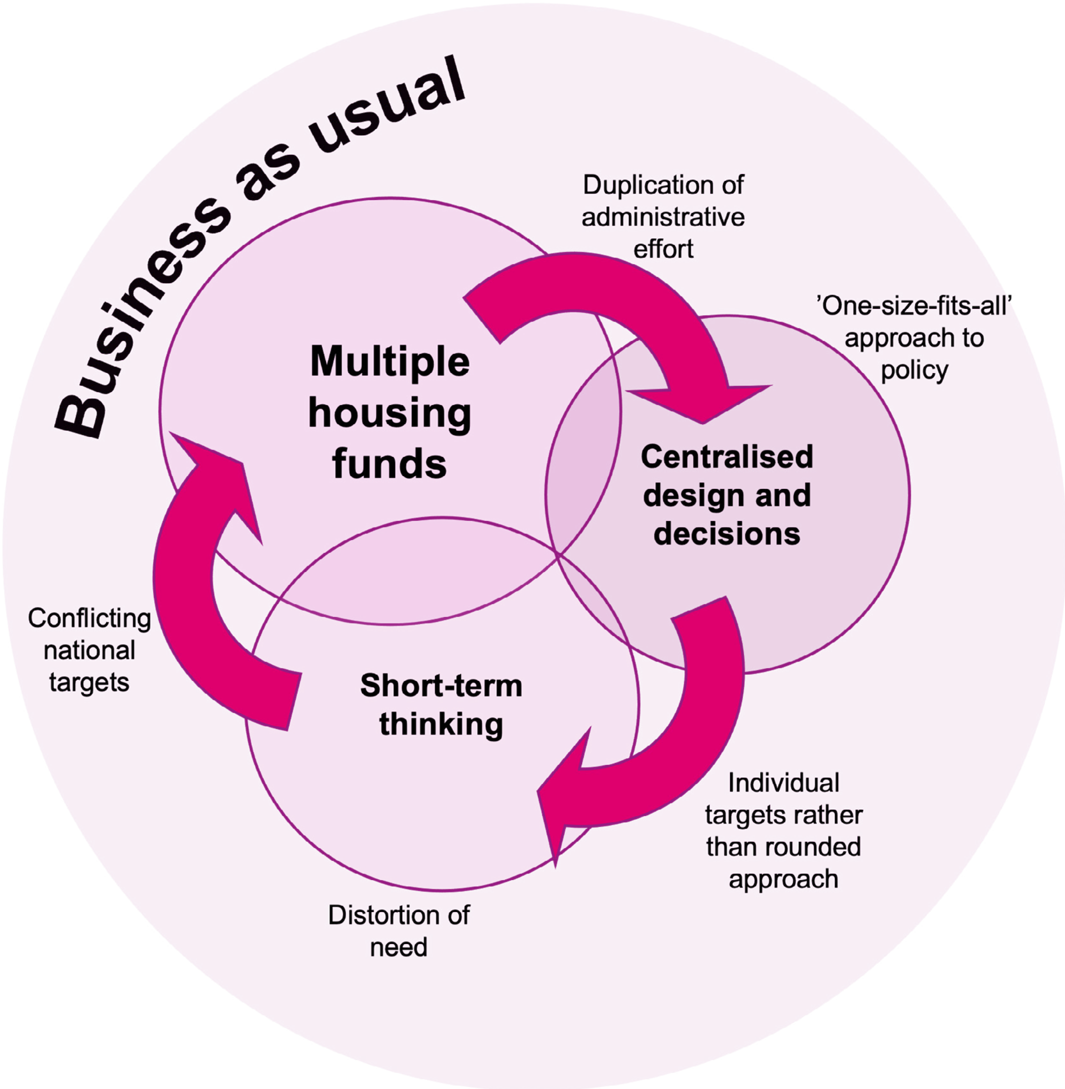
Short-term funding leads to long-term issues. The current funding system for housing involves multiple pots of funds. Moving towards one single long-term fund could help improve the delivery of housing.

Instead of having multiple housing funds, one alternative would be to have a single housing pot, much like the single settlement seen in the Trailblazer deals. This would prioritise strategic planning over short-term thinking and help to avoid the boom-and-bust cycles of housebuilding.

Long-term funding for housing could work towards the shared aim of:

- Better delivery of housing – more homes being built, including affordable homes, in areas where there is the most demand.
- Quicker delivery of housing – closing the gap between the number of annual permanent housing completions and the national house building target.
- Greener delivery of housing – a greater proportion of new builds meeting energy efficiency standards (EPC band C or above) and will not need to be retrofitted further down the line.

Figure 15 – Stylised graphic of business as usual housing funding (Pragmatix Advisory)



One size housing funding does not fit all. The current housing funding landscape is one that is fragmented and does not take into account the local need of different administrations.

The recent funding landscape for housing has largely been made up of the Housing Infrastructure Fund (which is now closed for new applications), the Brownfield, Infrastructure and Land Fund and the Affordable Homes Programme. The One Public Estate Programme, delivered in partnership with by the Local Government Association, Office of Government Property within the Cabinet Office and Department for Levelling Up, Housing and Communities, provides funding to support cross public sector partnerships to work collaboratively on land and property initiatives.

There are also funds set up to help meet Net Zero targets, such as the Green Homes Grant Local Authority Delivery Scheme, the Social Housing Decarbonisation Fund and the Home Upgrade Grant.

These funds are the government's main vehicles to deliver housing, by allocating funding to local authorities who bid for a share. It is a highly competitive system, one that distorts need and sees a duplication of administrative effort. Calls for greater standardisation of submissions to the funds have long been asked of central government by local government to better streamline the process.

Figure 16 - Select government funds for housing development, England, 2024

Central government fund	Basic information of fund	Worth of fund
Housing Infrastructure Fund (in action but now closed)	Government capital grant programme awarded to local authorities in the areas of greatest housing demand	Up to £2.3 billion
Brownfield, Infrastructure and Land Fund	Funding helps unlock housing-led developments on derelict or underused brownfield sites	Up to £1 billion
Affordable Homes Programme	One of the primary vehicles used by government to deliver affordable housing by allocating funding to local authorities and housing associations to support the capital costs of developing affordable housing.	Up to £11.5 billion
Green Homes Grant Local Authority Delivery Scheme	The Department for Energy Security and Net Zero has allocated £500 million to support the energy efficiency upgrades of low-income households across England. This funding is targeted at the worst EPC rated homes.	£500 million

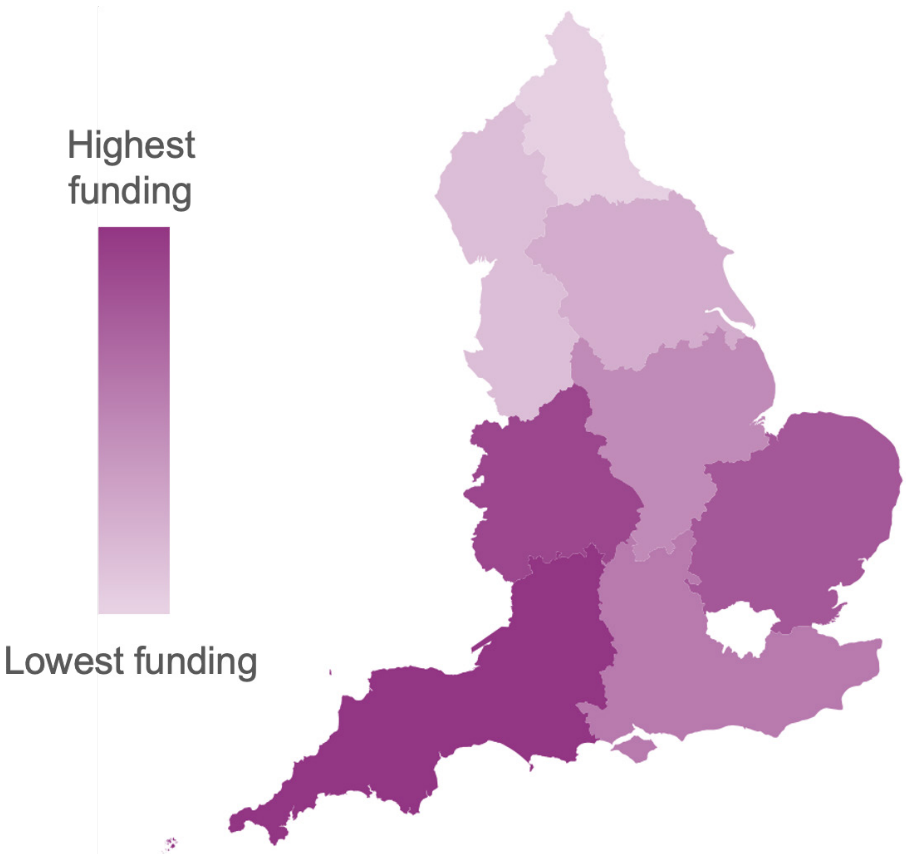
(Department for Levelling Up, Housing and Communities)

Housing funding allocations are skewed to the south.

The current Homes England formula for assessing social housing development viability incorporates the benefit from land value uplift. The scale of uplift depends on local circumstances and varies substantially by region. This means it may not adequately support affordable housing developments in northern England. In order for developments to be viable, a greater land value uplift is necessary. However, in areas with lower land values, the financial calculations often fall short.

Consequently, in some areas identified by the government as high priority for levelling up, despite the demand for housing, securing funding and delivering homes is hindered by the current economic appraisal methodology. The viability of projects appears to favour regions with high land values and uplift, predominantly located in the south.

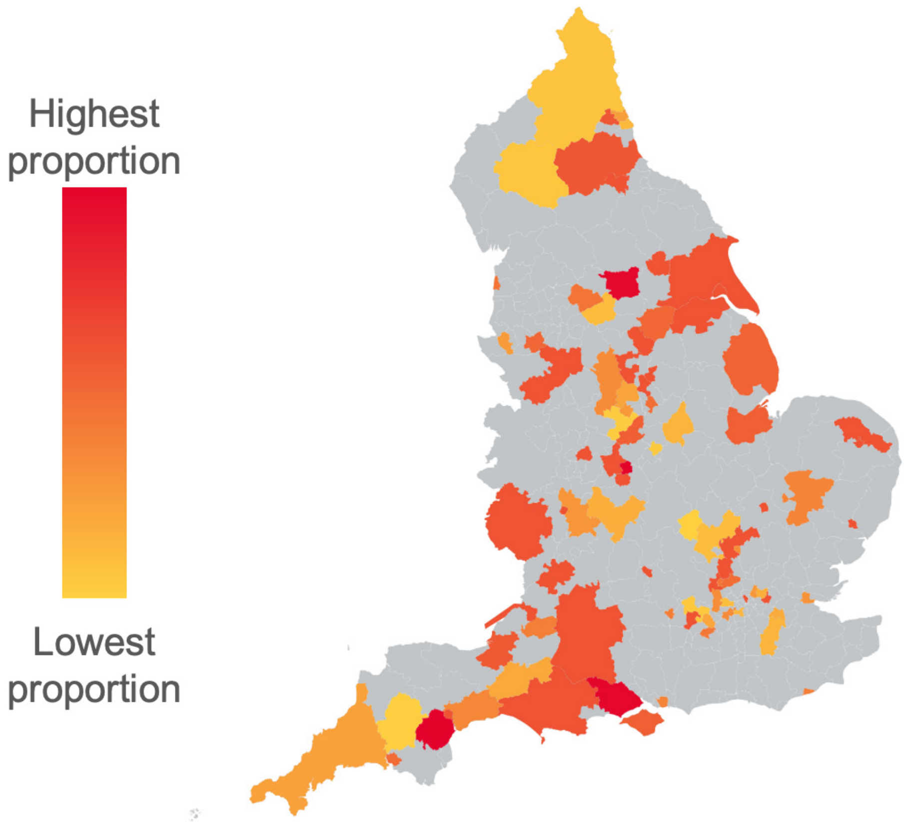
Figure 17 - Average Affordable Homes Programme 2021 to 2026 funding per home, England regions excluding London*, March 2023, all programme average *Note: Data only available at the regional level. Excluding London allocations as it is under the responsibility of the Greater London Authority **Note: Three programmes include Affordable Home Ownership, Affordable Rent and Social Rent. (Homes England)**



A consistent funding supply would better serve the green agenda. Across England, for 68 per cent of the households signed up to the Green Homes Grant Local Authority Delivery Scheme, the measures installed have resulted in an EPC rating upgrade, though the funding has underperformed in areas in the northeast and southwest.

Retrofitting existing stock is needed if Net Zero targets are to be met. However, cash-strapped local authorities are unlikely to expend months upskilling workers for housing projects while confined to a one-year funding cycle. With a consistent supply of money, the skills shortage within the construction industry and the individual retrofitting needs of each house can be better addressed.

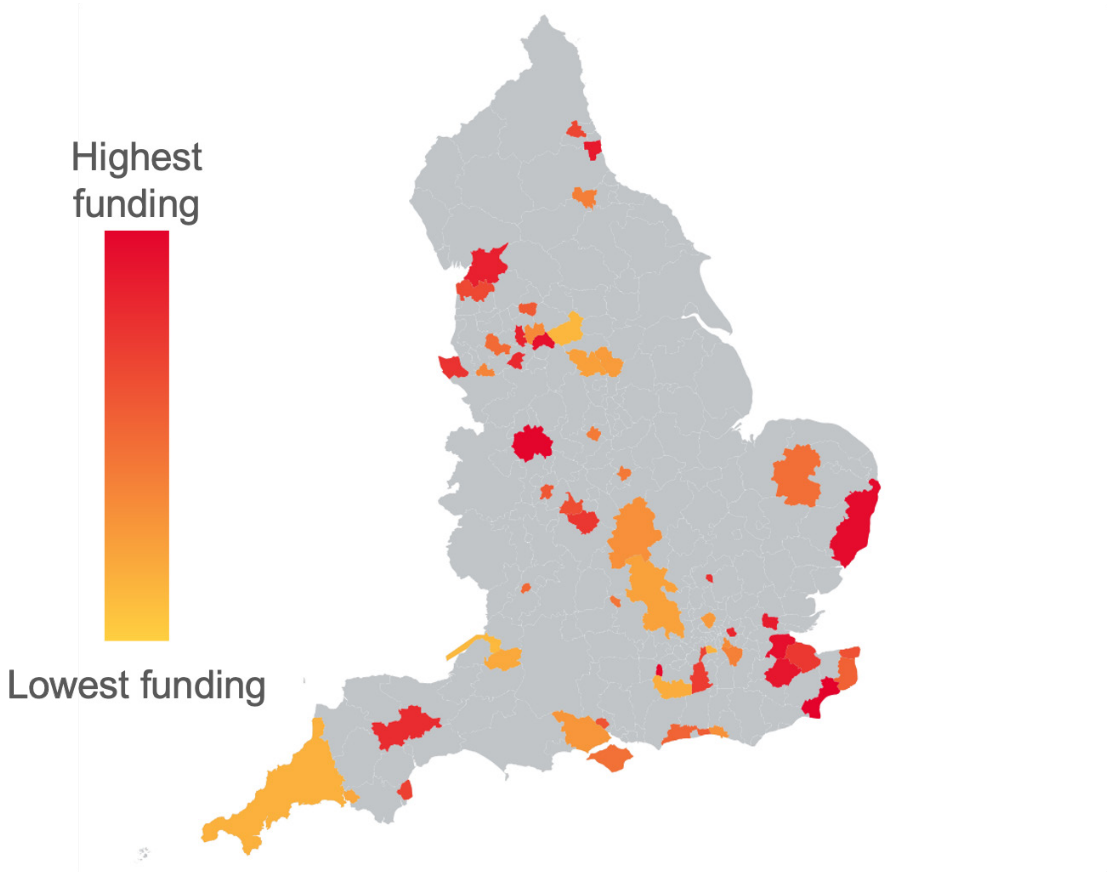
Figure 18 - Proportion of households with an EPC rating upgrade after being signed up to the Green Homes Grant Local Authority Delivery Scheme, England local authorities, February 2024 (Department for Energy Security and Net Zero)



In recent years, there has been a brownfield-led approach to building new homes. In the most recent phase of the Brownfield Land Release Fund, £60 million has been allocated across England to transform brownfield land and build 6,000 homes. Over sixty local authorities have received funding for their regeneration projects from the Department for Levelling Up, Housing and Communities.

Building on greenfield sites tends to be seen as urban sprawl by local residents and may impact on the environment negatively and so brownfield development has consistently featured on the political agenda. Though drawbacks of brownfield housing investment are that the sites are expensive to build on given the derisking required and can often translate to longer construction timelines.

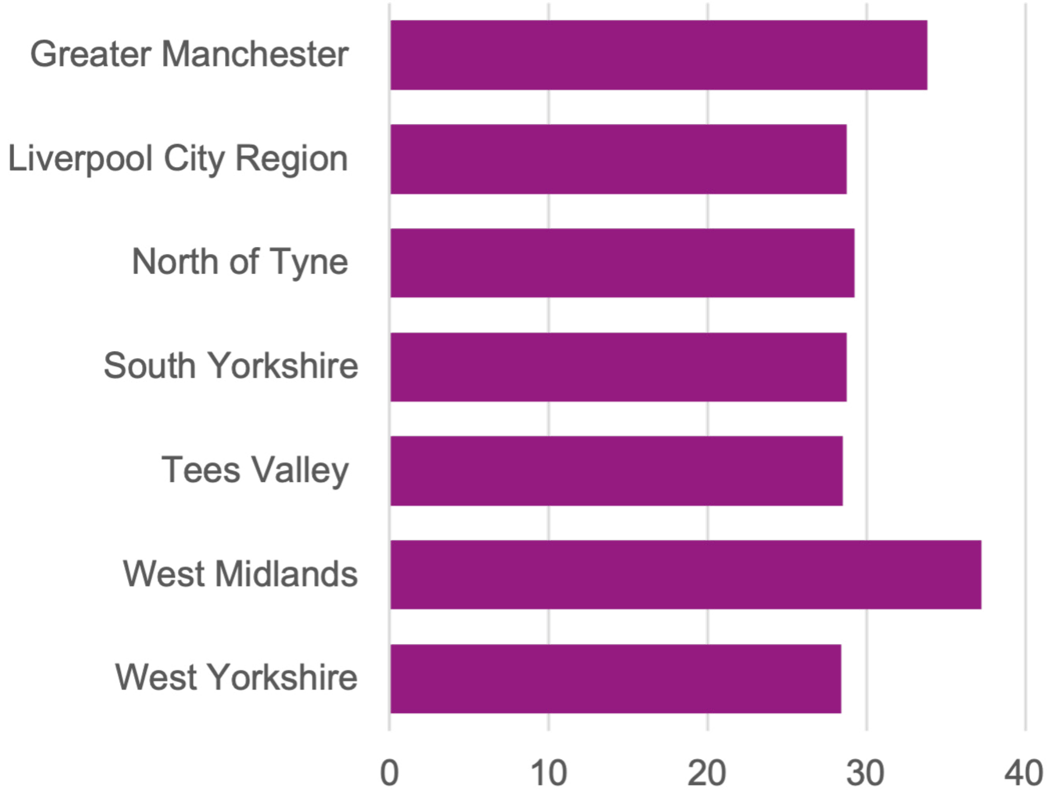
Figure 19 - Total funding Brownfield Land Release Fund (BLRF) award per usual household population, England local authorities, October 2023 (Department for Levelling Up, Housing and Communities and Cabinet Office)



Long-term funds should allow for preparatory work of brownfield sites. In 2021, the government made funding available to seven mayoral combined authorities from the Brownfield Housing Fund. Of this funding, West Midlands received the highest allocation per capita, with Greater Manchester following closely behind.

A long-term housing fund would make it easier for local government to create a pipeline of brownfield sites, so that they would be "oven-ready" for investment. Planning, zoning, surveying and undertaking environmental studies could be done in a transition period leading up to monitoring the impacts of a long-term fund. In the private sector housebuilding often works on a three-year term and so by introducing a transition period leading up to the long-term funds, the cliff edge of drop-dead rates of housebuilding could be reduced.

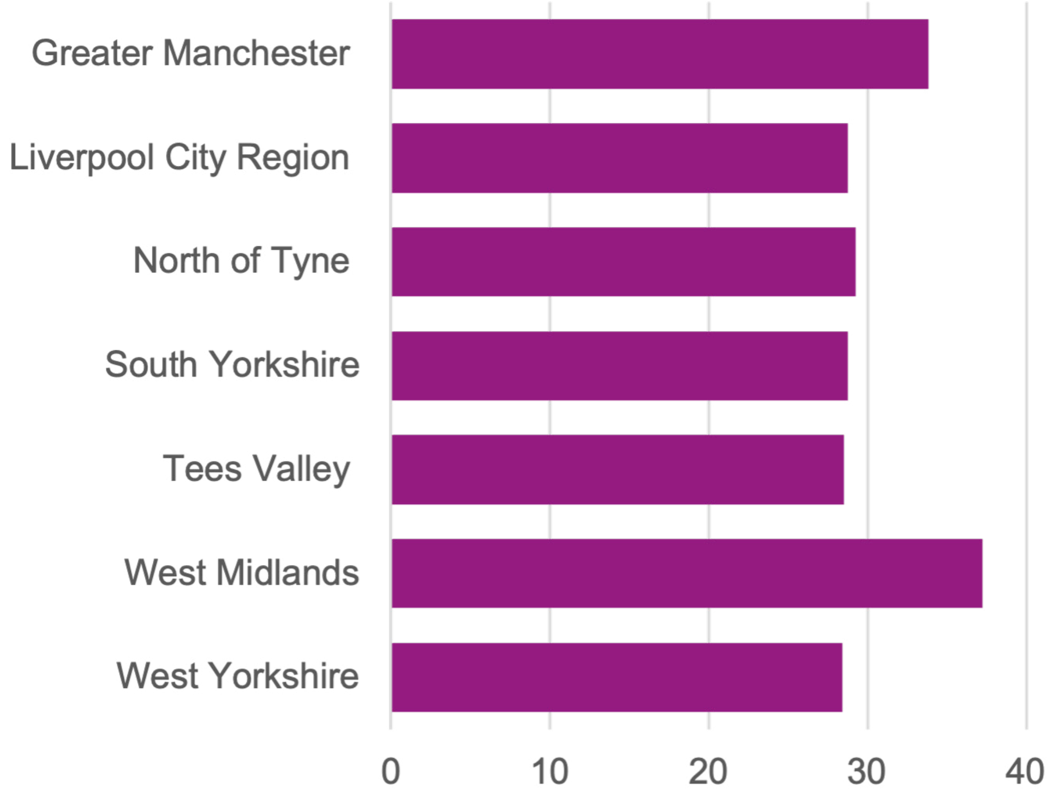
Figure 20 - Brownfield Housing Fund allocations to mayor combined authorities, England, 2021, £ per capita (Homes England)



Devolved housing typically comes in the form of devolved funding or policy commitments. In England, Greater Manchester, Cambridgeshire and Peterborough, North-East, West Midlands and West Yorkshire are the only combined authorities outside of Greater London with some kind of housing devolution.

The North-East is unique from the other four areas in the respect that devolution has been delivered in the form of policy commitments only. Funding for the other combined authorities has varied depending on local need.

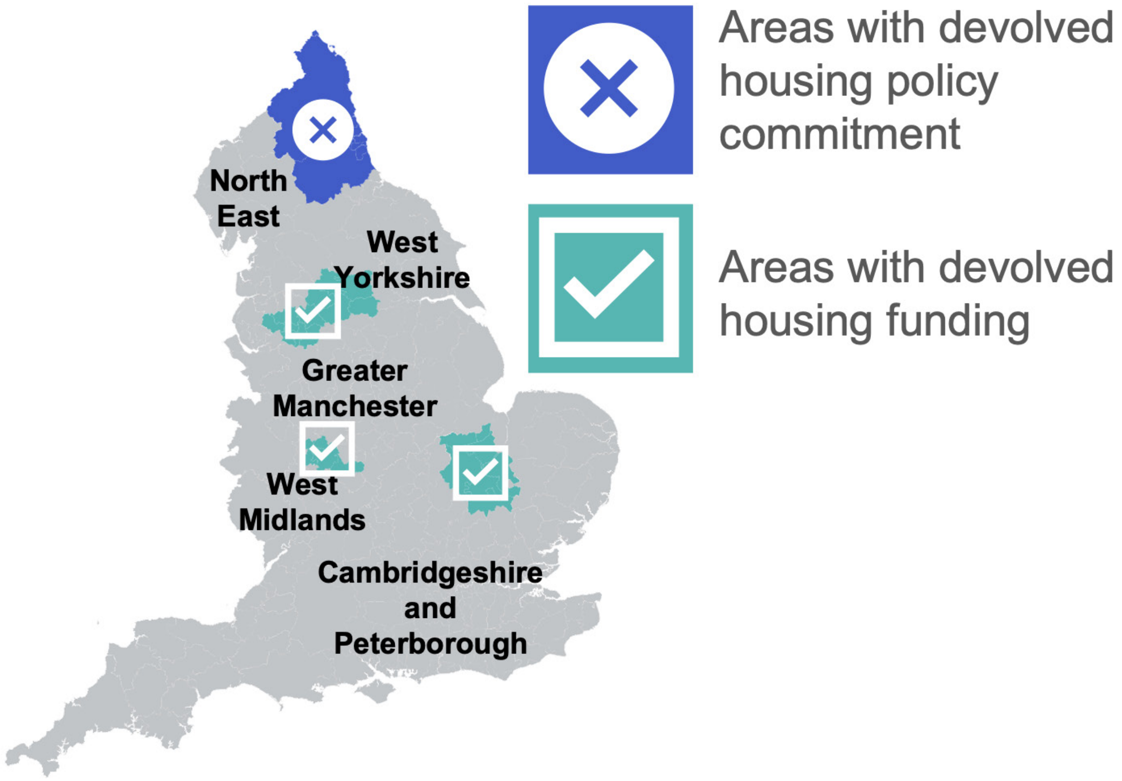
Figure 21 - Areas with types of housing devolution, England (excluding London), 2024 (Local Government Association Devolution Register and House of Commons Library)



But a devo-solution is only part of the story. In March 2023 the government committed to negotiating deals that deepened devolution – the Trailblazer deals, which have been approved for Greater Manchester and West Midlands. These deals represent the first time outside of London that local leadership of the Affordable Homes Programme has been permitted. The deals will also see devolution of brownfield land for houses, commercial development and urban regeneration as well as funds to support homeless families by eliminating the use of bed and breakfast accommodation.

It is too early to analyse the impacts arising for housing policy areas as a direct result of devolution. However, a housing deal does not necessarily have to entail devolution in the strictest sense – a consolidated pot of long-term housing funding could narrow the gap between housing delivery and national housing targets.

Figure 22 - Trailblazer Deeper Devolution deal areas, England, 2023 (Local Government Association Devolution Register and House of Commons Library)



The benefits of a five-year housing regime

This section explores the benefits of a housing funding and delivery regime which reduce volatility in housebuilding, reduce lead times for building, and save local and central government administrative costs.

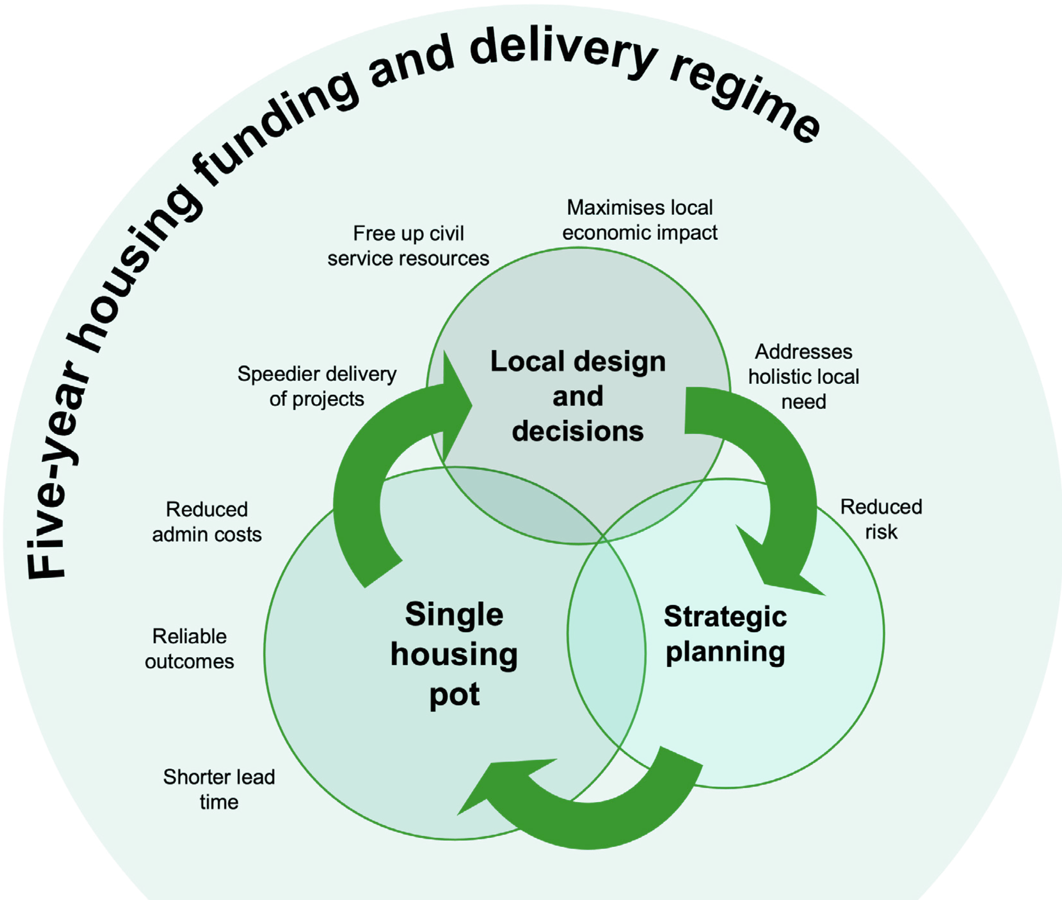
Several aspects to long-term funding regime

Our interview programme with housing stakeholders identified key aspects of a well-designed long-term funding and delivery regime for housing. A regime for housing which would speed up housebuilding and reduce costs would comprise of a single funding pot, with decisions on spending and planning taking place at the local level to align with local authorities' wider strategic objectives. The certainty of a longer fixed period would help remove some of the fluctuations in housebuilding.

The deal would have a clearly defined start and end date, with realistic and achievable build targets, and an understanding about which metrics would be used to measure the success of the programme. The programme would allow for flexibility within the targets if external factors impact on or delay building. A transition period before the deal would aim to ease any cliff edge in housebuilding rates.

Any deals would need to be flexible enough to deal with different geographies and the demands placed on them, for example national parks and green belts in rural areas.

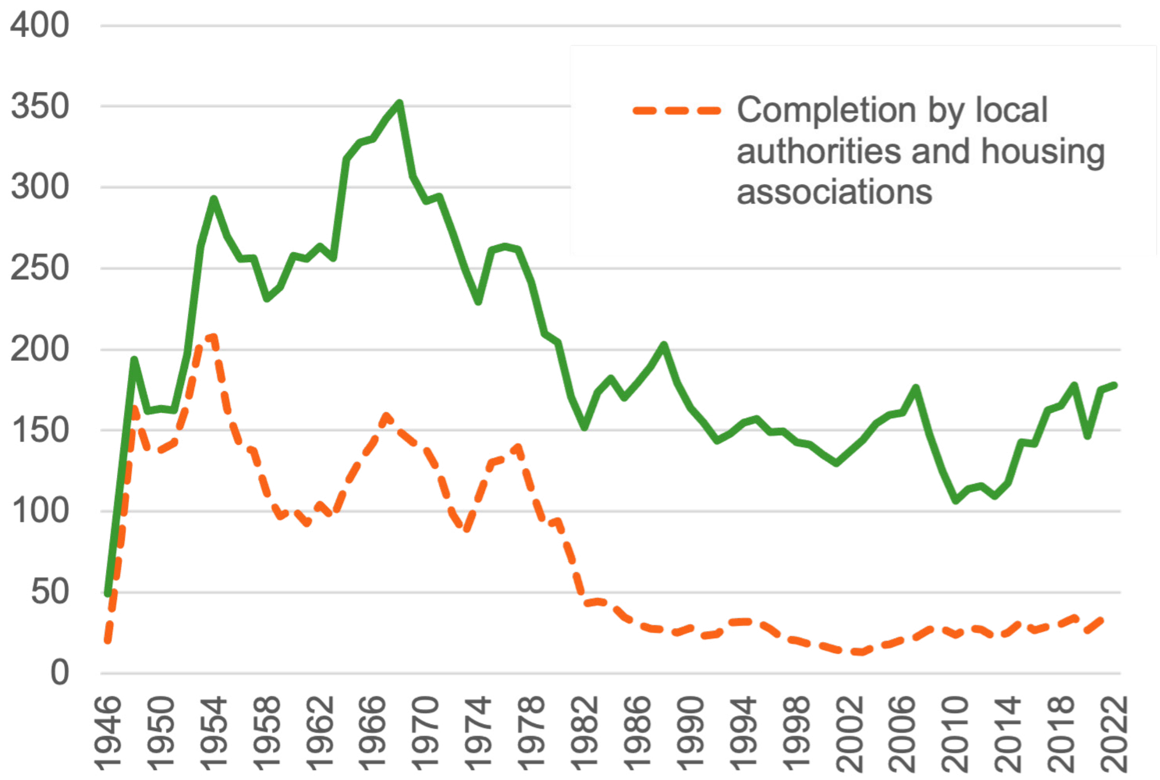
Figure 23 – Stylised graphic of five-year housing funding and delivery regimes (Pragmatix Advisory)



The rate of annual housing completions is volatile, but long-term funds could facilitate more stable outcomes. One of the main benefits we heard from our interview programme was that long-term funding would allow for greater certainty. By providing clear and sustained funding commitments, policymakers can incentivise long-term planning and investment in housing projects, leading to more consistent and less volatile housing completions.

Removing the uncertainty of multiple short-term funding pots enables local authorities to undertake strategic initiatives with confidence. Planning for housing can be integrated with other new developments including transport, water, sewerage, energy, health, education, leisure and digital infrastructure, allowing for more cohesive development.

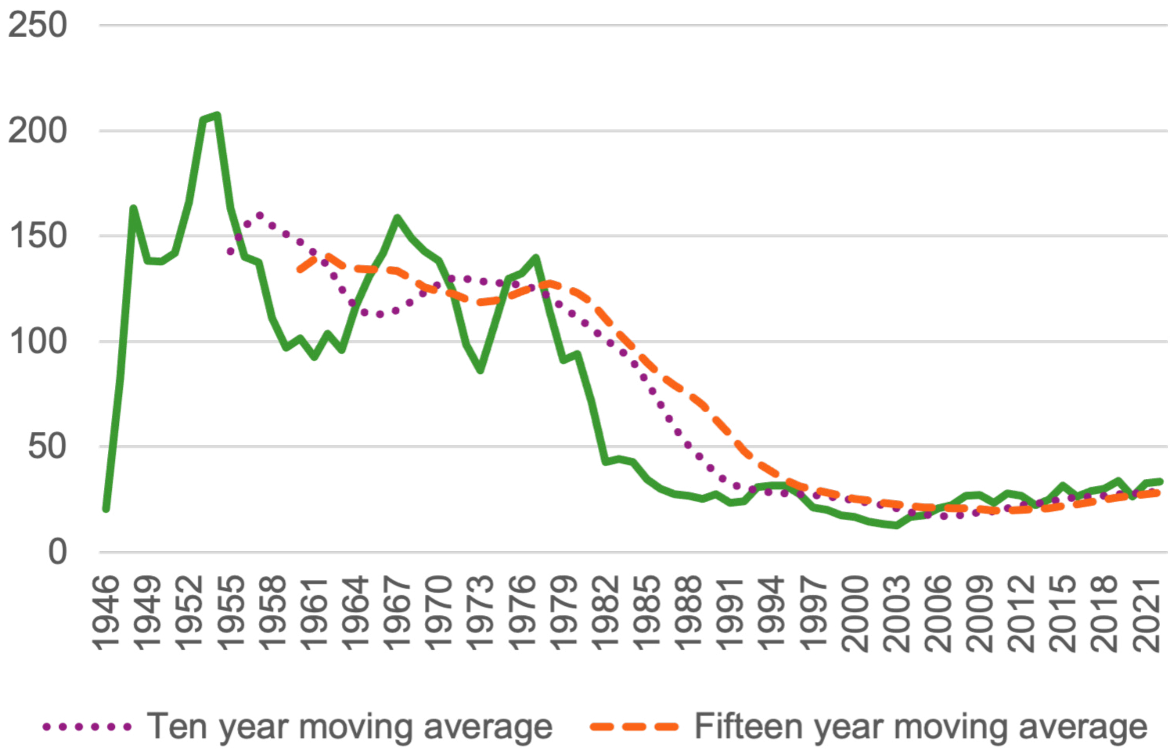
Figure 24 - Number of permanent housing completions per year, England, thousands (Office for National Statistics)



Long-term deals could reduce the risk of rushed completions. Long-term funding certainty can help mitigate some of the risk associated with rushed construction and handover of homes, particularly in relation to abrupt 'cliff edges' between affordable housing programmes. When funding is tied to 'drop dead' dates developers may face pressure to expedite construction processes, potentially compromising on build quality or safety standards.

Long-term consolidated funding deals would provide a more stable funding environment, reducing the frequency of these 'cliff edge' scenarios and allowing for more deliberate and considered approaches to housing development. They would allow for more flexibility and attention to detail, as well as permit developers to adopt more sustainable construction practices and implement quality control measures.

Figure 25 - Historic number of housing completions by social housing developers, England, thousands (Pragmatix Advisory analysis of Office for National Statistics data)



Long-term housing regime would save admin costs

One key aim of the government outlined in the spring budget is to improve public sector productivity. Long-term housing deals would reduce administrative costs for local authorities and free up civil servant resources.

Single pot, longer-term housing deals would streamline administrative processes, cutting costs and boosting efficiency. Local authorities would benefit from extended funding commitments, enabling better procurement planning and reduced transaction costs. With less time spent on grant applications, officers would be able to focus on housing delivery and community engagement, ensuring projects meet local needs effectively and on time.

However, if long-term housing fund agreements cannot be achieved, it was expressed in our interview programme that as a minimum, greater standardisation of housing fund submissions would at least free up staff time.

Implementing long-term housing deals for local authorities offers the potential to alleviate some of the workload of civil servants too, resulting in cost savings for central government. By devolving housing responsibilities and funding to councils through five-year agreements, central government officials can redirect their focus and resources to other housing priorities.

This shift reduces the administrative burden associated with managing individual grant applications and overseeing housing programmes, enabling civil servants to allocate their time and expertise more widely, managing strategic oversight and providing support and guidance.

Long-term funding maximises local impact

Long-term funding would better address holistic local need and maximise local economic impact. Long-term deals offer an opportunity to address holistic local needs, providing flexibility for quicker responses to dynamic housing markets. By devolving housing responsibilities through long-term deals, local authorities can tailor interventions to meet specific demands, such as addressing housing shortages or adapting to demographic shifts. This flexibility would enable councils to ensure more effective allocation of resources to where they are most needed.

Through the deals, local authorities can synchronise housing strategies with broader local development plans and infrastructure projects. This approach can enhance efficiency, promote collaboration between stakeholders and result in more sustainable solutions to local housing challenges.

Economic impact would be maximised by offering flexibility tailored to diverse geographies, while acknowledging potential capacity constraints of smaller, rural authorities. Empowering local councils to set their own criteria for housing funding would enable them to prioritise projects that align with local economic development goals.

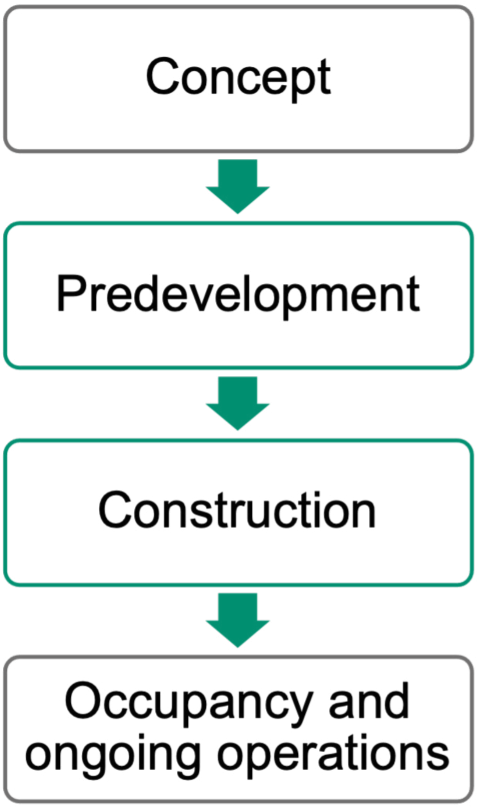
There is a chance to maximise social value through the creation of sustainable employment and training opportunities, particularly through initiatives like construction apprenticeships. The duration of these programmes would allow for more comprehensive retrofitting and upgrading of existing housing stock, too, generating job opportunities linked to new and emerging green technologies. By targeting housing interventions, councils can stimulate economic activity and create employment opportunities in areas that need them most.

Figure 26 - Design principles for maximising the impact of locally managed long-term housing funds (Pragmatix Advisory interview programme)

Long-term deals would allow for shorter lead times. Long-term agreements offer the opportunity to streamline building projects by addressing the challenges presented by a fragmented planning system. With district councils responsible for housing and planning and county councils managing local infrastructure, there can be a disconnect, leading to infrastructure funding gaps.

Through long-term deals, local authorities can align housing plans more closely with infrastructure development, reducing lead times by fostering better coordination between planning authorities and infrastructure providers. By consolidating decision-making power and funding streams, councils can expedite the approval and implementation of housing projects, minimising delays caused by bureaucratic inefficiencies.

Figure 27 - Standard stages of housing development (Pragmatix Advisory interview programme)



Five-year funding would allow for speedier delivery of homes. Long-term deals would allow local authorities to sensibly invest smaller amounts of money over time, avoiding the start-stop nature of bidding for different grants and enabling them to meet housing demand more efficiently. With predictable funding streams, councils can establish partnerships with suppliers and contractors, fostering long-term relationships that drive down unit costs and streamline project delivery.

Compared to pre-covid levels, construction output in new social housing has decreased 22.5 per cent. Long-term deals could encourage output through the adoption of modern methods of construction and new technologies, further expediating project timelines. The ability to purchase land without waiting for planning permission would increase the agility of projects, enabling councils to capitalise on development opportunities.

Figure 28 - Construction output index, Great Britain, seasonally adjusted, 2019=100 (Office for National Statistics)

The benefits of delivering more social housing

This section outlines the impact that a five-year housing regime would have on the scale of delivery of new homes for social rent, including the net benefits to public sector finances.

Scale unclear, but potentially significant impact

We have spoken to senior relevant officers across a variety of combined authorities. Their message is consistent and clear: longer funding periods will allow them to deliver more housing at lower unit costs. Unsurprisingly, what is less clear is the likely scale of any such improvement. There is no historical evidence on which to base any estimates of impact. Although there have been successful mayoral / combined authority bids for devolved housing powers and funds, it is too early to identify quantified impacts while the analysis behind the original bids was not focused on explaining the causal impact of long-term funding alone.

None of our interviewees were able to put an accurate or precise figure on potential benefits. Nonetheless, just because a future impact cannot be robustly quantified does not mean it will not be significant.

Interviewees indicated substantial improvements in housing delivery could be made – both through improved efficiency in the construction sector and its supply chain, and from reducing the amount of public sector housing funding deployed on administration rather than building. They anticipated potential gains that would make a material impact on the rate of housing delivery in their areas. When pressed, these were ‘guesstimated’ to be potentially in the low double-digits of percentage points of social housing output.

Smoothing the cycle

First, interviewees argued that greater predictability in the pipeline of social housing construction would provide stability in the sector, and its supply chain, which would reduce the cycle of materials and skills shortages and oversupply – and permit more cost-effective tendering and procurement.

A thorough investigation of sector dynamics is beyond the scope of this exercise – but to give an indication of the potential scale of additional homes that could be built if the completion rate was less volatile, we considered the long-run trend in completions over time and compared it to actual yearly completions.

To estimate the extra social homes that could have been built with a more predictable funding regime, we added up the homes below the long-term trend line and those above it. The difference between the two totals gives us an estimate of the net number of additional social homes that would have been completed. We can convert this figure into a percentage, which helps is factor in the growth potential from 'smoothing the cycle'.

This assumption uses historic DHLUC data on the number of new social home completions over time, looking at the difference between the long-term trend over a fifteen, twenty and 25-year period, comparing how many homes were delivered each year, and considers what would have happened if the long-term trend was delivered instead of a fluctuating rate.

By reducing volatility in construction and its supply chain, resource can be better utilised across years. Analysis of historical social housing build rates versus long-term trends indicates that eleven per cent more homes could have been built if the peaks and troughs in activity were evened out.

Reducing admin costs

Second, interviewees identified reductions in the public sector administrative burden as a potentially significant benefit of five-year funding regimes.

The duplication of effort in applying for and administering multiple funds places an administrative burden on local and national government.

The public sector social housing delivery bureaucracy is sizeable. The national government's Homes England agency alone has an annual direct staffing budget of around £130 million. In addition, there are staff in central government departments and across local and combined authorities (although it is not possible to identify how many).

Our interviews made clear that much of this resource is deployed in the mechanics of bidding for central government funding, rather than the actual delivery of homes (although how much time is being spent like this is not consistently tracked or reported).

Moreover, further public funds are used to hire consultancy and temporary resource in support of repeated rounds of bidding for quickly evolving central government grant programmes. Interviewees indicated that their authorities spend between £30,000 and £100,000 on consultancy support per bid, and undertake multiple bids per year.

Administrative cost saving are possible, but the scale is unclear. At less than Homes England's staff budget, a boost after five years equivalent to building in the order of five per cent more social homes is not an unreasonable assumption.

Improving industry productivity in the long run

Third, over the longer term, better and more reliable resource utilisation will stimulate higher returns, higher wages and greater innovation and investment. Higher productivity will mean that more social homes can be delivered for the same budget. The scale of this impact is unclear but something in the order of five per cent after ten years is not unreasonable.

21 per cent in a decade reasonable assumption

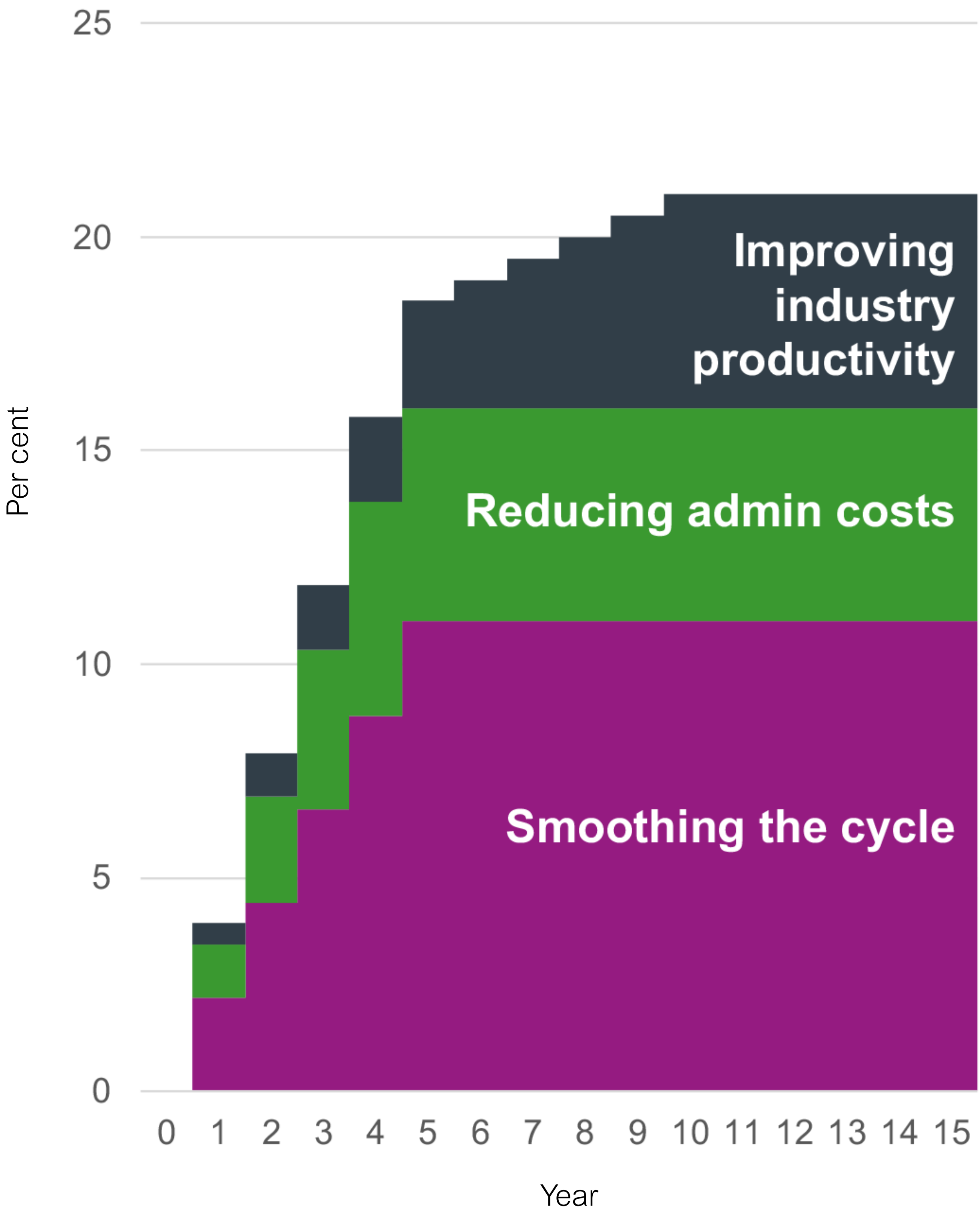
Impact will build over time, but benefits will be felt within the first parliament. For the purposes of illustrating the impact of a regime of consecutive five-year housing funding deals, with appropriate devolution of decision making, we assume that the impact will be equivalent to an additional 21 per cent on social housebuilding.

This is not a direct and robust estimate of the causal impact of the new policy – but, instead, is an indication of the potential order of magnitude. It is consistent with, and potentially at the conservative end of, the feedback from interviews.

There will be a transition period – as the new processes bed in, and industry and investors gain greater comfort that the regime is permanent. Again, we have taken a cautious approach and phased in the impact gradually over ten years.

Taking a 21 per cent long-term increase in social housing output per annum as a reasonable albeit tentative assumption, we can assess the policy's likely knock-on impacts on broader social, economic and fiscal objectives

Figure 29 – Potential impact of longer-term funding on rates of social home building, Assumed profile by year, per cent (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities and Office for National Statistics data)



Five-year regime will deliver more social homes

The certainty of a five-year housing regime could lead to hundreds of thousands of additional homes for social rent being built. We have developed two scenarios to estimate the potential impact of a five-year housing regime on the number of homes for social rent being built:

- No change in real funding scenario: Five-year housing regimes are introduced, but funding for social home building remains the same in real terms.
- Increase in real funding scenario: Five-year funding regimes are introduced, and there is an increase in funding equivalent to an additional ten per cent more homes for social rent per annum, up to a maximum of 90,000 new homes for social rent per year.

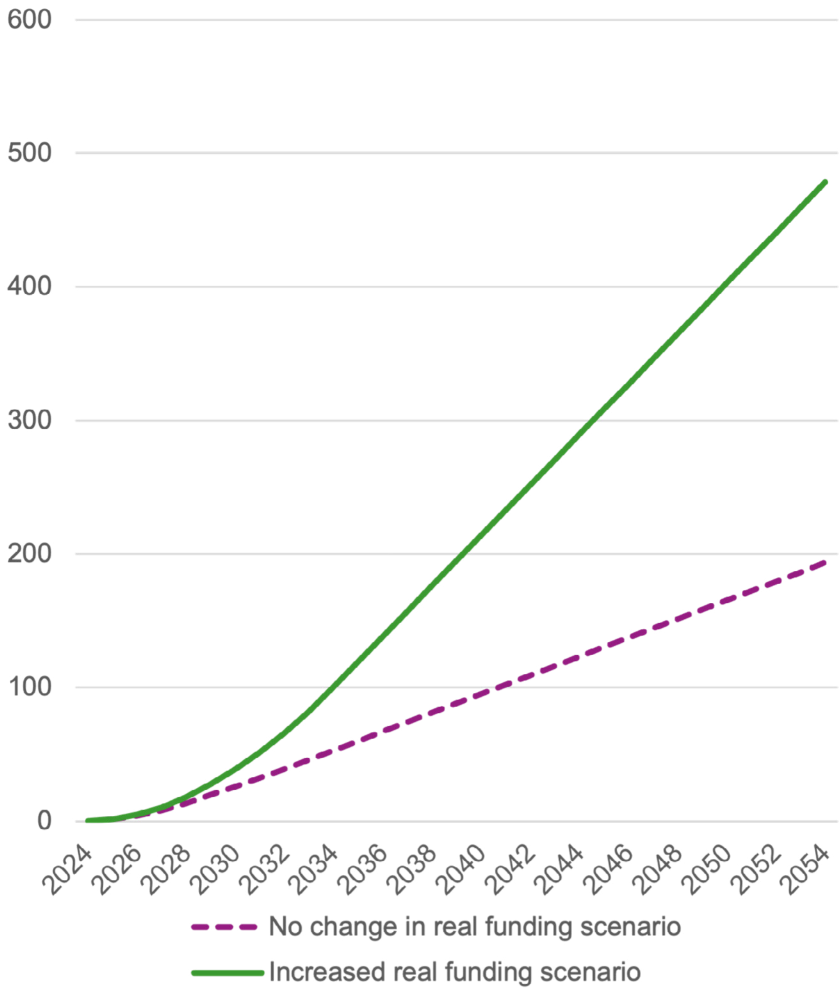
These two scenarios are compared with:

- Current housing regime: no changes to current funding levels or the housing fund regime.

By reducing volatility in construction and its supply chain, reducing administrative costs and improving industry productivity, under the no change in real funding scenario, nearly 200,000 additional social homes are projected to be built over the span of 30 years, and the policy's full implementation by 2035 is anticipated to yield an increase of 7,000 extra social homes every year.

If the government takes a more proactive approach to addressing the housing crisis, the impact of five-year housing regimes will be magnified. Over the course of 30 years, the increased finding scenario could result in almost 500,000 additional new homes for social rent being built.

Figure 30 - Impact of a five-year housing regime: Additional social homes built, England, cumulative thousands (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities and Office for National Statistics data)

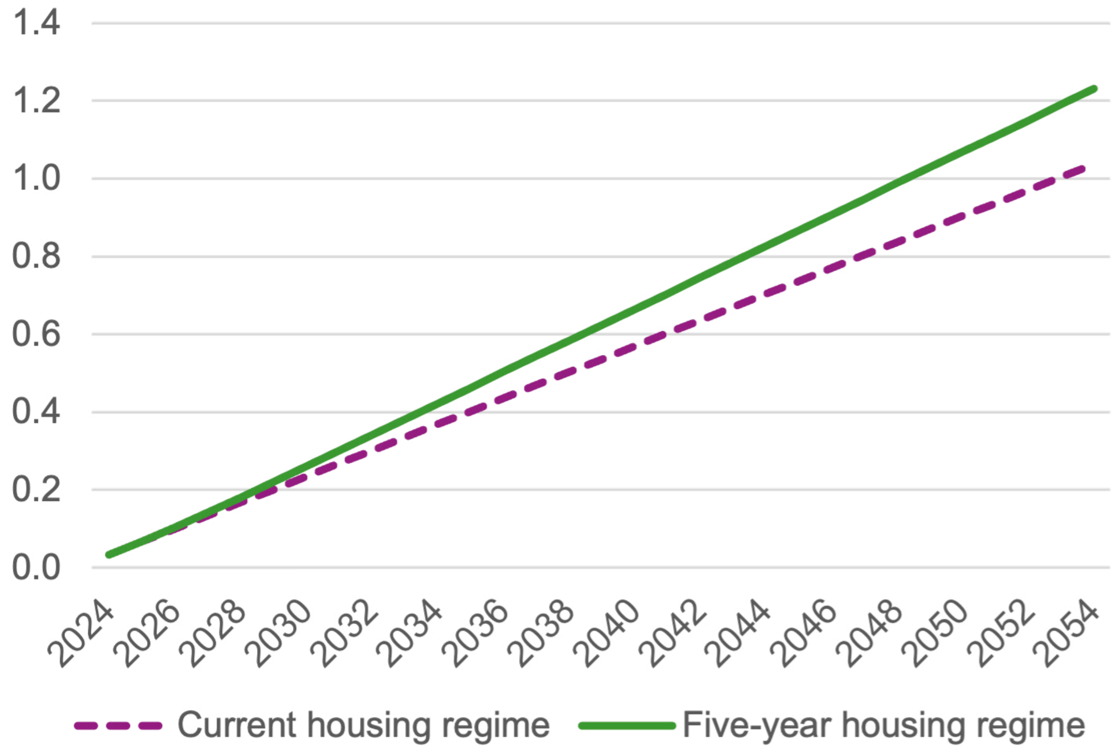


Almost 200,000 more social homes built over 30 years.

Under the no change in real funding scenario, 6,400 additional social homes will be constructed each year by 2030 under a five-year housing regime. With nearly 200,000 additional local authority social homes projected to be delivered over the span of 30 years, the policy's full implementation by 2035 is anticipated to yield an increase of 7,000 extra social homes every year.

The scenarios do not assume specific geographies delivering additional homes and are instead calculated by scaling national build rates. Both the current housing regime scenario and five-year housing regime scenario assumes devolution of housing funding and decision making for those local areas who want it at the geographical level most appropriate to them.

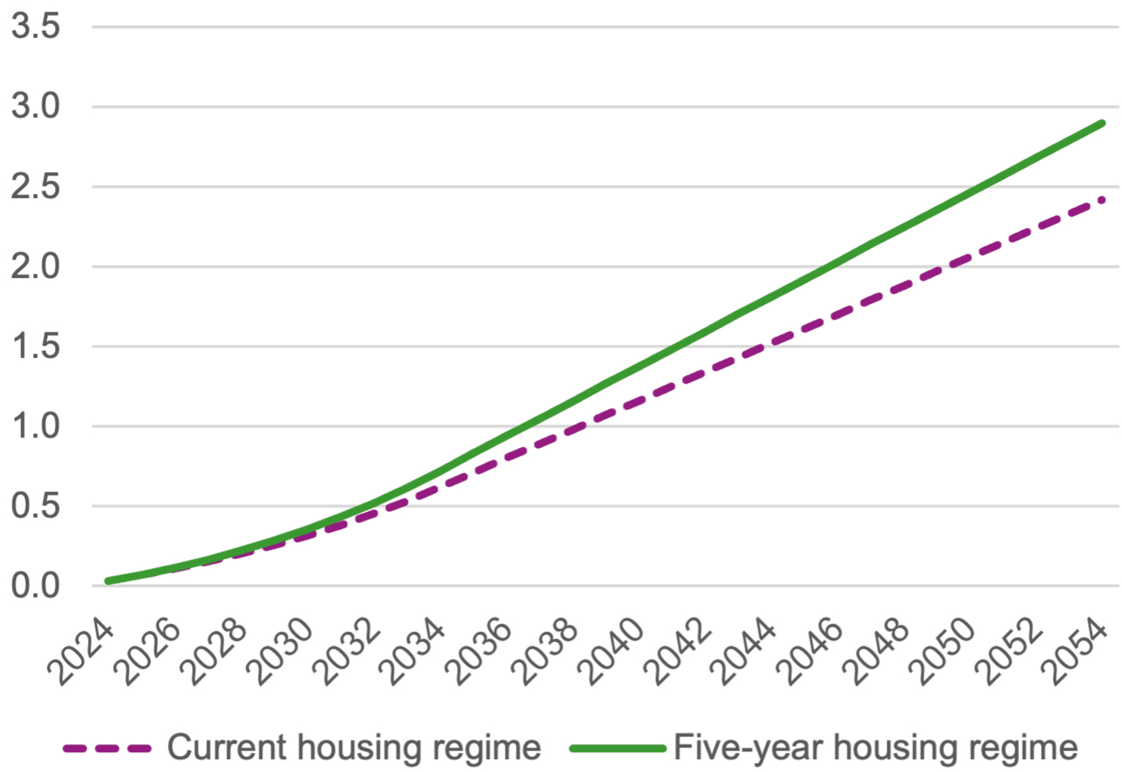
Figure 31 - New social homes built, No change in real funding scenario, England, cumulative number, millions (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities and Office for National Statistics data) The current housing regime scenario uses historic DHLUC data on the number of new social home completions. The five-year housing regime scenario uses historic DHLUC data on the number of new social home completions, plus the number of additional social homes that would be completed with five-year funding deals.



If the government responds more positively to the housing crisis, the impact of five-year housing regimes will be even bigger. If the government takes a more proactive approach to addressing the housing crisis, the impact of five-year housing regimes will be magnified. Over the course of 30 years, the increased funding scenario would result in almost 500,000 additional new homes for social rent being built.

By the year 2030, the yearly increase would reach over 11,000 homes, with projections indicating a further rise to 18,900 homes for social rent per annum by 2035. These numbers are achievable by 2030 if five-year housing regimes are introduced within the first year of the new parliament.

Figure 32 - New social homes built, Increased real funding scenario, England, cumulative number, millions (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities and Office for National Statistics data). The current housing regime scenario uses historic DHLUC data on the number of new social home completions, with completions growing by ten per cent each year up to a maximum of 90,000 completions per year. The five-year housing regime scenario uses historic DHLUC data on the number of new social home completions, with completions growing by ten per cent each year up to a maximum of 90,000 completions per year, plus the number of additional social homes that would be completed with five-year funding deals.



Social homes provide socioeconomic benefits

Cebr's 2024 report for Shelter and the National Housing Federation is the latest view from the industry on the economic impact of building new social housing.

As the most up to date research available, it is more appropriate for us to deploy its analysis as part of the research into the impact of five-year housing funding regimes than to try and recreate it.

As such, we have used the reports' findings to calculate the annual socioeconomic benefits and the impact on public sector finances of the number of social homes built with the implementation of five-year housing funding regimes.

In their research, Cebr estimated the socioeconomic impact of 90,000 social homes. We have taken this data, and estimated what the equivalent impact of one home would be. This number can then be scaled for any given year.

The number of homes we have estimated can be built in any one year due to five-year housing funding regimes is a certain percentage of what would otherwise have been built (using historic data on completions from the Department for Levelling Up, Housing and Communities, and under a no change in housing policy scenario).

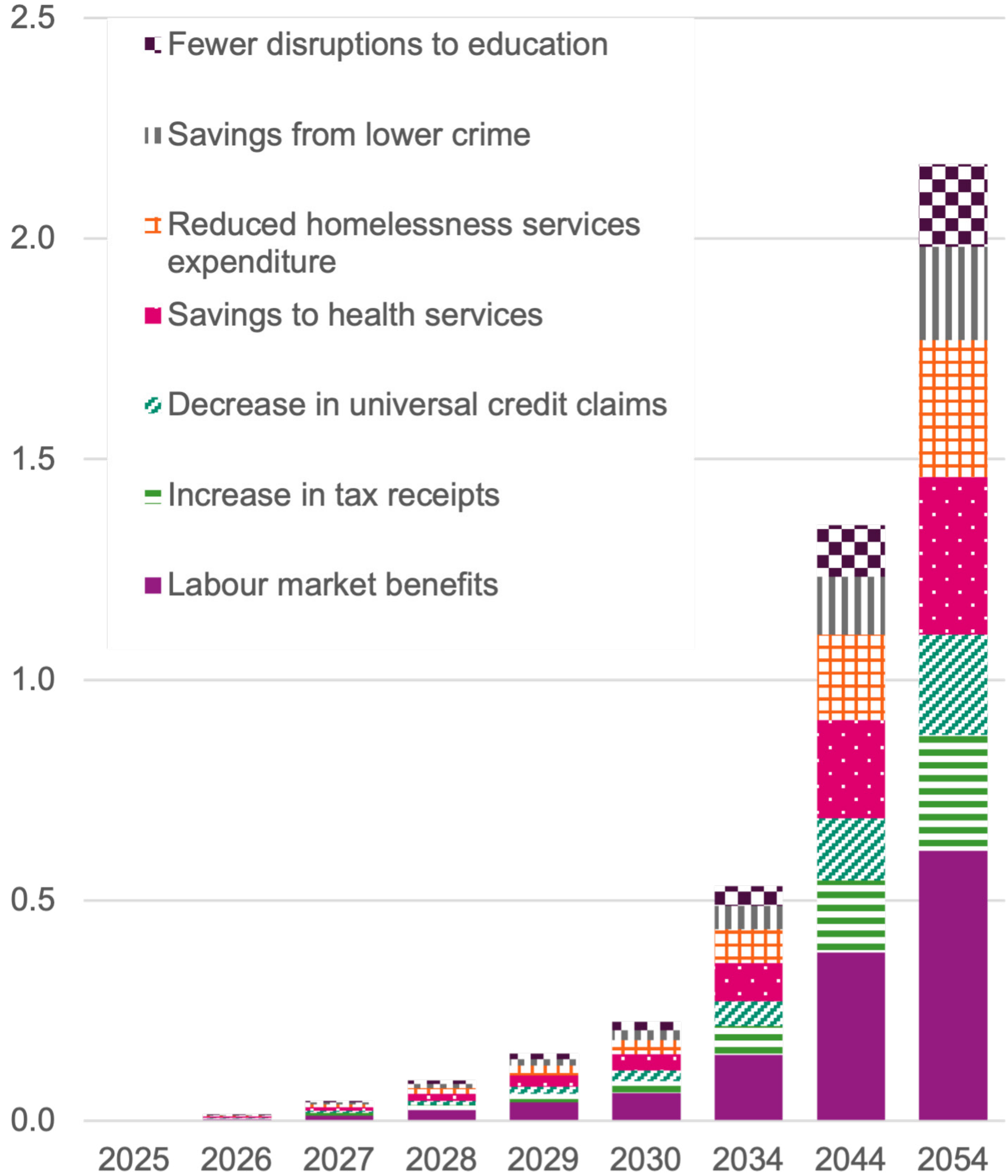
We estimate the additional percentage of homes that would be built is a maximum of 21 per cent, and reaching 21 per cent more social homes being built happens slowly over time. It is not immediate.

Half a billion pounds of annual benefits by 2034

By unlocking the building of more social homes, five-year housing regimes will generate significant knock-on social and economic benefits.

- Reduced homelessness services expenditure: the overall number of homeless individuals and those residing in temporary accommodations would decline, which would lower costs for local authorities.
- Savings to health services: the demand for healthcare services could decrease due to lower health risks associated with a more stable housing environment.
- Decrease in universal credit claims: individuals have lower expenditure, which would decrease their dependence on universal credit claims.
- Increase in tax receipts: increase in taxes on property, income and consumption due to increased economic activity.
- Labour market benefits: with better access to social housing, working-age individuals are more likely to secure employment opportunities.
- Fewer disruptions to education: children and young people can attend school regularly without disruptions.
- Savings from lower crime: a more stable housing situation would yield lower costs associated with being a victim of crime and lower police callouts.

Figure 33 - Key annual socioeconomic benefits of five-year housing regime, No change in real funding scenario, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Cebr for National Housing Federation/ Shelter)



£3.3 billion boost for the government's budget

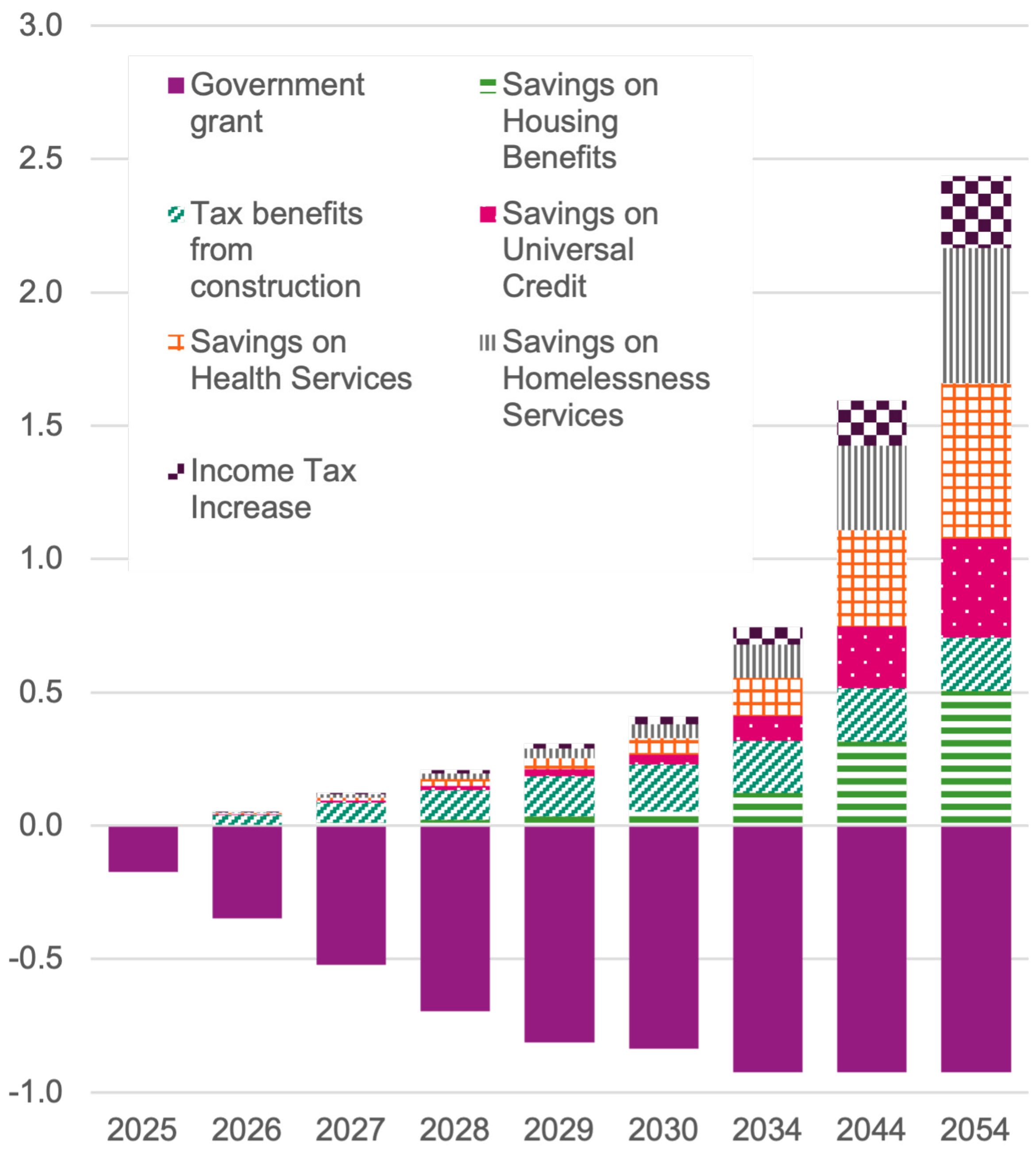
Five-year housing regimes could boost the government's budget by £3.3 billion over 30 years. The creation of more homes for social rent would result in decreased reliance on government assistance, leading to lower universal credit claims, reduced costs for local authorities due to decreased homelessness, and savings from reduced health risks and healthcare burdens. Furthermore, the economic stimulus provided by stable housing would create employment opportunities for working-age individuals, contributing to increased income tax receipts for the government.

Government can expect to see budget benefits such as:

- Reduced spending on government grants: reduced need for emergency assistance, lower housing benefit payments and decreased expenditure on homelessness services would decrease the amount of grants being paid out.
- Tax benefits from construction: the construction of homes for social rent would yield higher tax revenues due to increased economic activity in the construction sector.
- Lower spending on temporary accommodation provision: spending on temporary accommodation and homelessness support would decrease, resulting in long-term savings of £4.5 billion for local authorities over 30 years.

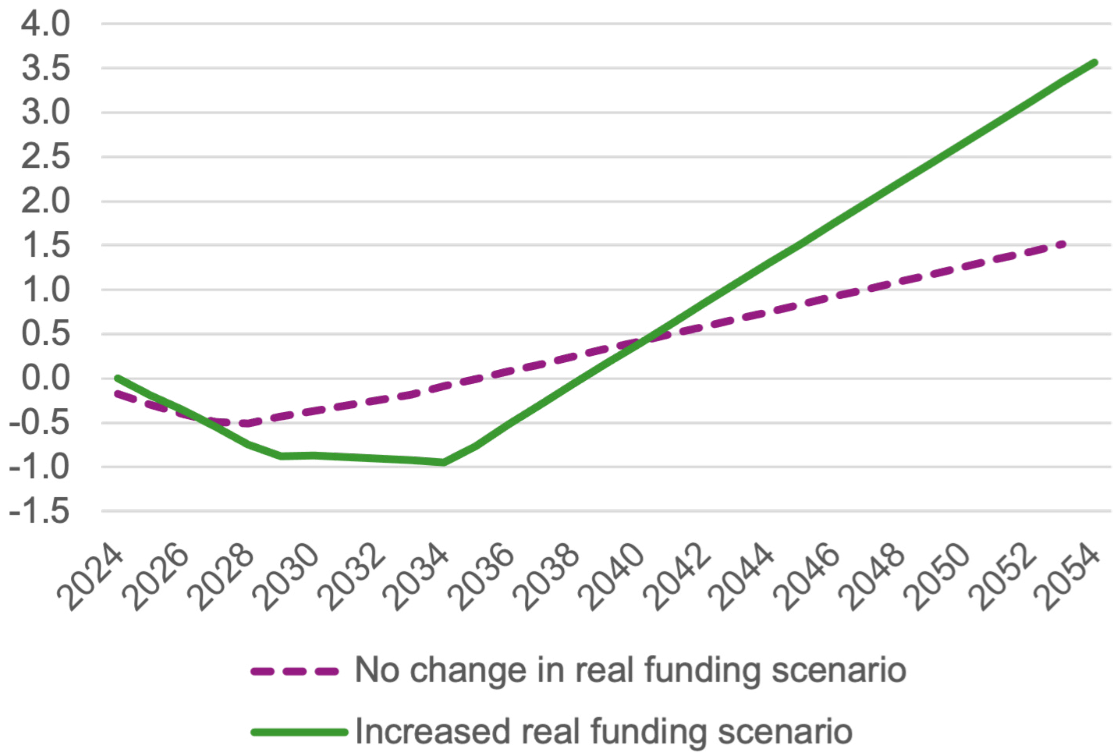
Overall, a programme of consecutive five-year housing regimes could deliver a net boost over 30 years to public sector finances with a net present value of £3.3 billion in today's prices.

Figure 34 - Annual impact on public sector finances of five-year housing regime, No change in real funding scenario, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Cebr analysis. Note: Present values calculated over 30 years with 3½ per cent annual real discount rate.)



Five-year housing regime generates positive net cash for public sector as early as 2035. The five-year housing regime is expected to yield positive net cash for the public sector by 2035, although this may be offset by higher upfront costs under an increased real funding scenario, with greater benefits anticipated in the long term.

Figure 35 - Net annual impact on public sector finances of five-year housing regime, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities, Office for National Statistics and Cebr data). The no-change in real funding scenario uses historic DHLUC data on the number of new social home completions, plus the number of additional social homes that would be completed with five-year funding deals to estimate the number of new housing completions. This is multiplied by the impact of one social home on public sector finances over time, which was calculated using estimates on the economic impact of building social housing by Cebr. The increase in real funding scenario uses historic DHLUC data on the number of new social home completions, with completions growing by ten per cent each year up to a maximum of 90,000 completions per year, plus the number of additional social homes that would be completed with five-year funding deals. This is multiplied by the impact of one social home on public sector finances over time, which was calculated using estimates on the economic impact of building social housing by Cebr.



Over three decades, public sector finances could be £3.3 billion better off. However, under the increased real funding scenario, this figure rises substantially to £5.6 billion. This suggests that with additional investment upfront, the public sector stands to reap even greater financial benefits in the long term from a five-year housing regime.

Figure 36 - Impact on public sector finances over 30 years of an ongoing five-year housing regime

Scenario	Net present value	Real rate of return
No change in real funding scenario	£3.28 billion	8%
Increased real funding scenario	£5.61 billion	7%

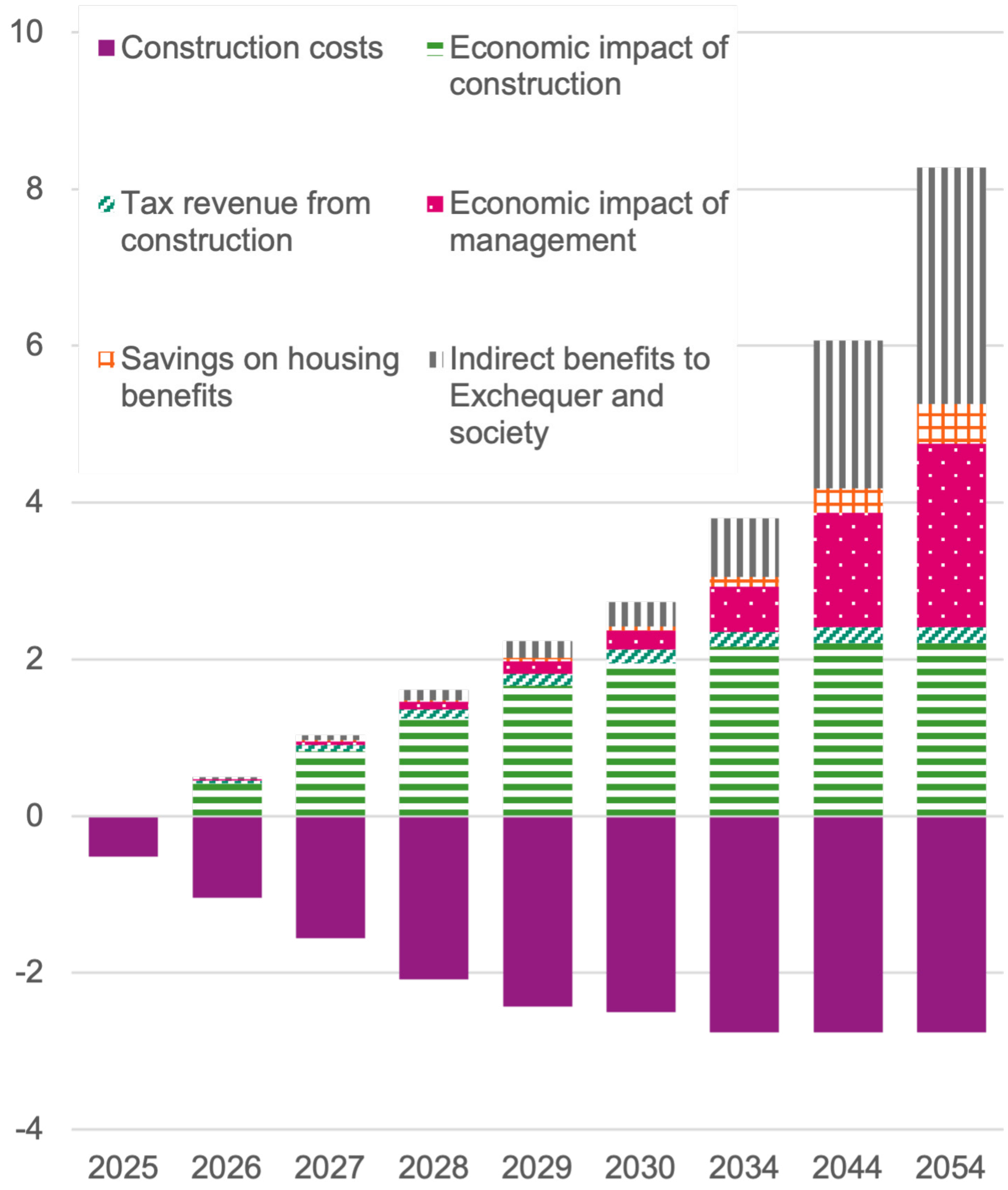
(Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities, Office for National Statistics and Cebr data)

Benefits to society exceed costs by £31 billion

By unlocking the building of more social homes, five-year housing regimes will generate considerable socioeconomic benefits.

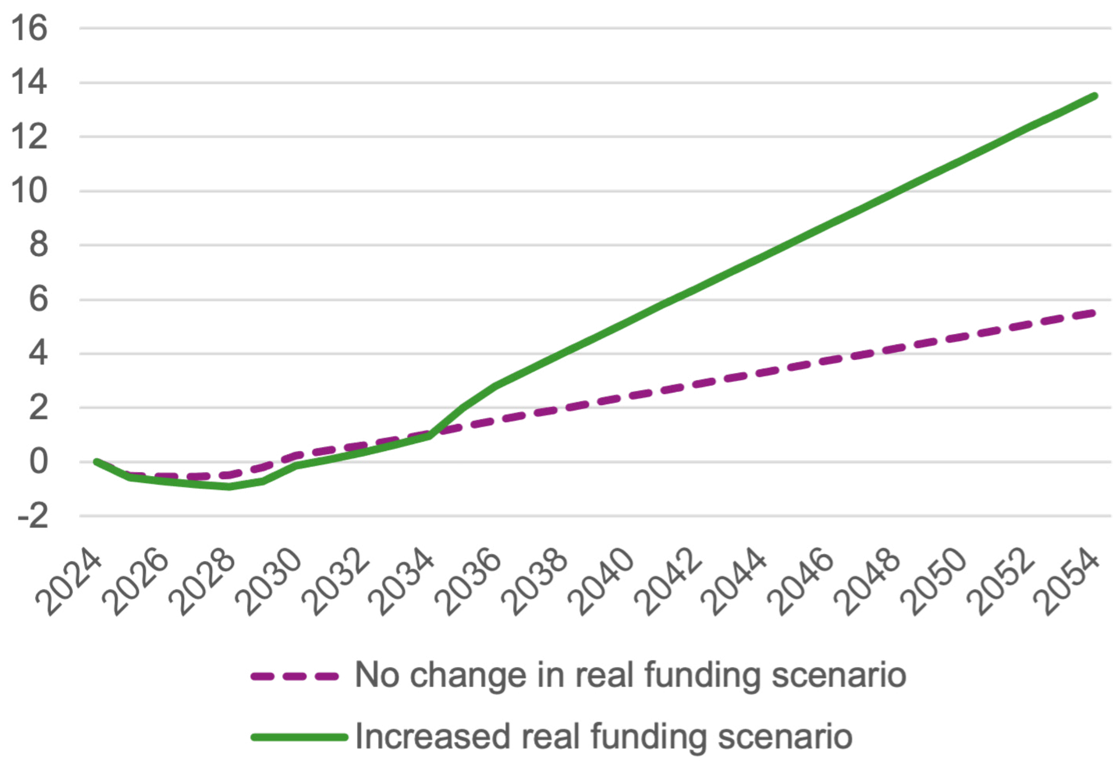
- Construction costs: housing shortages are alleviated, community stability is fostered, and economic growth is stimulated through job creation and spending in local economies is increased.
- Economic impact of construction: the increased economic activity in construction is expected to generate £2.5 billion in tax revenue and infrastructure development.
- Tax revenue from construction: increased economic activity in construction is expected to generate an estimated total of £2.5 billion directly generated from the construction of social homes.
- Economic impact of management: managing social homes generates significant economic benefits, providing stability to the construction industry, highlighting the importance of grant funding.
- Saving on housing benefits: shifting households to the social rented sector reduces financial strain and inequality while providing affordable housing, stability, and enhancing well-being for low-income households across regions.
- Indirect benefits to Exchequer and society: social rented housing ensures secure, affordable, and high-quality tenure, benefiting tenants and society through reduced homelessness, decreased strain on social services, and fiscal gains for the Exchequer.

Figure 37 - Overall annual socioeconomic benefits of five-year housing regime, No change in real funding scenario, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Cebr analysis. Note: Present values calculated over 30 years with 3.5 per cent annual real discount rate.)



Five-year housing regime will have a net positive socioeconomic impact by the end of the decade. Under the no change in real funding scenario, the increase in new homes for social rent being built will produce a net positive socioeconomic impact by 2030. Under the increased real funding scenario, positive socioeconomic impacts can be expected by 2031.

Figure 38 - Net annual socioeconomic impact of five-year housing regime, England, £ billions, 2024 prices (Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities, Office for National Statistics and Cebr data). The no-change in real funding scenario uses historic DHLUC data on the number of new social home completions, plus the number of additional social homes that would be completed with five-year funding deals to estimate the number of new housing completions. This multiplied by the socioeconomic impact of one social home over time, which was calculated using estimates on the economic impact of building social housing by Cebr. The increase in real funding scenario uses historic DHLUC data on the number of new social home completions, with completions growing by ten per cent each year up to a maximum of 90,000 completions per year, plus the number of additional social homes that would be completed with five-year funding deals. This is multiplied by the socioeconomic impact of one social home over time, which was calculated using estimates on the economic impact of building social housing by Cebr.



Socioeconomic benefits exceed costs by £31 billion.

Overall, a programme of consecutive five-year housing regimes have the potential to deliver net socioeconomic benefits with a net present value of £31 billion in today's prices.

If increased funding is made available for new homes for social rent, the socioeconomic value over 30 years could increase to £56.1 billion in today's prices.

Figure 39 - Overall socioeconomic impact over 30 years of an ongoing five-year housing regime

Scenario	Net present value
No change in real funding scenario	£31.1 billion
Increased real funding scenario	£56.1 billion

(Pragmatix Advisory estimates based on Department for Levelling Up, Housing and Communities, Office for National Statistics and Cebr data)

Appendix

Additional details and key research assumptions

Impact of longer-term funding on rates of social home building, assumed profile by year, per cent

Year	Smoothing the cycle	Reduced admin costs	Improved industry productivity
0	0	0	0
1	2.20	1.25	0.50
2	4.40	2.50	1.00
3	6.60	3.75	1.50
4	8.80	5.00	2.00
5	11.00	5.00	2.50
6	11.00	5.00	3.00
7	11.00	5.00	3.50
8	11.00	5.00	4.00
9	11.00	5.00	4.50
10	11.00	5.00	5.00
11	11.00	5.00	5.00
12	11.00	5.00	5.00
13	11.00	5.00	5.00
14	11.00	5.00	5.00
15	11.00	5.00	5.00

(Pragmatix Advisory estimates based on interview programme and Department for Levelling Up, Housing and Communities, Office for National Statistics and Homes England data)

Defining the scenarios:

- Increase in real funding scenario: There is an increase in funding, equivalent to an additional ten per cent more homes for social rent per annum, up to a maximum of 90,000 homes per year.
- No change in real funding scenario: Funding for social home building remains the same in real terms.

The scenarios do not assume specific geographies delivering additional homes and are instead calculated by scaling national build rates.

Both the current housing regime scenario and five-year housing regime scenario assumes devolution of housing funding and decision making for those local areas who want it at the geographical level most appropriate to them.

Assumptions underpinning Cebr's socioeconomic value of building 90,000 social homes:

- aggregate net benefit £51.2 billion
- thirty year time horizon
- real annual discount rate 3.5 per cent
- benefits begin to accrue from year two.

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